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■ DEALS OF THE YEAR • JAPAN'S U.S. CAR PLANTS • BEST STOCKS OF '88 ■

JANUARY 30, 1989

$3.50

FORTUNE

AMERICA'S MOST ADMIRED CORPORATIONS

FORTUNE'S ANNUAL SURVEY

THE TOP TEN
Merck
Rubbermaid
3M
Philip Morris
Wal-Mart Stores
Exxon
PepsiCo
Boeing
Herman Miller
Shell Oil

How Sam Walton and His Team Are Building the Biggest Retailer

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JANUARY 30, 1989

FORTUNE

Says a supplier: "They talk softly, but they have piranha hearts, and if you aren't totally prepared . . . you'll have your ass handed to you." COVER STORY/PAGE 52

COVER: Sam Walton, Wal-Mart chairman and founder, was photographed by Louis Psihoyos/ Matrix at the company headquarters in Bentonville, Arkansas.

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Cover Stories

WAL-MART: WILL IT TAKE OVER THE WORLD? 52

So long, Sears. Move over, K mart. Sam Walton's outback discounter is rising fast—and is No. 5 in FORTUNE's latest survey of America's most admired corporations. How did it get there? By being friendly to customers, tough with suppliers, inspirational to employees, and extremely profitable for shareholders. *by John Huey*

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AMERICA'S MOST ADMIRED CORPORATIONS 68

Results of the seventh annual survey are in: Reigning king Merck runs its winning streak to three, Rubbermaid repeats as No. 2, and PepsiCo makes its debut on the top ten list as No. 7. *by Carol Davenport*

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JAPAN'S GUNG-HO U.S. CAR PLANTS 98

Jumping the oceans with the latest technology, Japanese managers are drilling their own ways into enthusiastic—but sometimes stressed-out—American workers. Here's a look inside Japan's Auto Alley, an area that cuts through six heartland states and provides 15,000 assembly jobs. Big new factories are shaking up small, sleepy communities, bringing social and fiscal strains, along with hefty paychecks *by Louis Kraar*

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A QUANTUM LEAP IN ELECTRONICS 113

A famous and paradoxical theory of modern physics may set off a transformation as profound as the one begun 40 years ago when transistors replaced vacuum tubes. So-called quantum wells, minuscule traps that hold electrons, are the key to exciting new applications—from thin flat-panel TV screens to satellites that can communicate with submarines under water. *by Gene Bylinsky*

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THE BEST AND WORST STOCKS OF 1988 156

If memories of the crash drove you into hiding last year, your decision was understandable—but costly. The Dow Jones industrial average and the broader Standard & Poor's 500-stock index nearly tripled their 1987 performances with total returns of about 17%. The champion stock: Henley Manufacturing, traded over the counter, which went up 347%. *by Joshua Mendes*

VOL. 119, NO. 3

"Never buy a new issue. It pays to wait until the share price drops to a discount."

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"Every customer that comes within ten feet of me, I will smile . . . and greet them, so help me Sam."

PAGE 52

"If you really want teamwork and good communications, it's time consuming."

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"Gorbachev promised a perestroika dividend. But the check is still in the mail."

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"At other companies you hit 55, and bingo, you're gone."

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"You don't have to pay bugs a big salary."

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DEALS OF THE YEAR 162

After a hesitant start, merger activity—and dealmakers' fees—blazed new records in 1988. The $111.8 billion in total deals does not include the granddaddy of them all, the $25 billion leveraged buyout of RJR Nabisco by Kohlberg Kravis Roberts. That behemoth won't be wrapped up until later this year. Still, a larderful of household names, including Kraft, Bloomingdale's, *TV Guide*, Firestone, and CBS Records, changed hands. *by Ronald Henkoff*

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Westerners seeking a big new market in the Soviet Union will have to wait. While social change is speeding ahead with the introduction of rock concerts and beauty contests as well as freer speech, Mikhail Gorbachev's economic reforms are stalled. The budget deficit is ballooning, inflation is rife, and productivity is poor. Meanwhile meat, milk, bath soap, and laundry powder are in short supply, so endless lines still define the Soviet way of life. *by Richard I. Kirkland Jr.*

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With the ranks of younger employees thinning, smart corporations are realizing that their best recruits may be over 55. To hold on to them longer and keep them motivated, employers have started so-called phased retirement programs, offered paid sabbaticals, and even awarded new job titles with higher pay. In such companies older employees are thriving. Says one septuagenarian: "What I can do in one day these young kids can't do in a week." *by Anthony Ramirez*

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EDITOR'S DESK

Cover writer Huey: tracking down Sam

EARLY EVERY YEAR, FORTUNE publishes its eagerly awaited survey of corporate reputations, a poll of nearly 8,000 senior executives, outside directors, and financial analysts on their opinions of the largest companies in the industries they work for or follow. In all, 305 companies in 32 industry groups are rated by eight measures of reputation. Among this year's big winners: Wal-Mart Stores, the retailing empire of Arkansas billionaire Sam Walton, which led its industry by a long measure and leaped four places to fifth among the ten most admired companies.

To find out how Wal-Mart earns its reputation, FORTUNE writer John Huey had to talk his way into the press-shy company. When the top eight managers finally agreed to speak with him at headquarters in Bentonville, Arkansas, he was led into a company command post known as the Quail Room and met coolly by a tableful of men sitting with their arms crossed. Says Huey: "I told them I felt like the guy who got a date for the prom with the prettiest girl in the class, and I have five minutes to convince her what a good time she is going to have." Huey must have been persuasive. In a first for a journalist, he was invited to sit in on the secretive weekly merchandise meeting, where he heard the top managers plot strategy.

Despite rebuffs, Huey also was determined to speak with Sam Walton. One rainy day at headquarters, Huey spotted Walton's red pickup truck in the parking lot. The chairman, an avid quail hunter, had been forced in by the rain. Says Huey, who then persuaded Walton to pose for our cover photo: "I felt that I had come face to face with one of the real titans. But he was very charming, and quick to point out he was wearing an $89 all-wool suit from Sam's Wholesale Club, a Wal-Mart chain."

Searching out explanations for the rise and fall of reputations of other companies in our survey, reporter Carol Davenport spent six months helping to gather and interpret the data and interviewing over 100 executives and analysts. Her comprehensive report, edited by John Lawrence, begins on page 68. Corporate reputations are fickle—easy to lose and tough to mend. Still, Davenport encourages those who do not rank high this year. Says she: "Most people who lose their reputations rarely have occasion to redeem themselves. Companies in the survey are more fortunate—every year they get that second chance."

Davenport and Lawrence: checking out reputations

Marshall Loeb
MANAGING EDITOR

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AMERICA'S MOST ADMIRED CORPORATIONS

Merck runs its winning streak to three, Rubbermaid repeats as No. 2, but five of this year's top ten weren't there last year. PepsiCo joins the elite for the first time. ■ *by Carol Davenport*

CORPORATE REPUTATION is a fragile thing, but a few qualities stand out among companies consistently regarded most highly by their peers—earnings growth, product innovation, and ambitious operating goals. Merck obviously has that formula down to a science. For the third year in a row, the pharmaceutical giant scored highest among 305 of the largest U.S. companies evaluated by thousands of top executives, directors, and security analysts participating in FORTUNE's seventh annual corporate reputations survey. Just behind Merck is Rubbermaid, runner-up last year as well.

Several others grew considerably in stature in the tough and informed judgment of competitors and other experts who did the scoring within each industry. Wal-Mart Stores, which got big enough to be included in the competition only a year ago, shot to the No. 5 spot from its already stunning debut as No. 9. Boeing, which took a dive to 19th last year after four appearances among the ten most admired, rose 11 places to No. 8. Big Oil made a comeback: Exxon, last seen in the top ten three years ago, leaped 15 places to No. 6, while Shell Oil, No. 10, rejoined the elite after a year's absence. Herman Miller, the furniture company, also made it back after a year away. Just one company is a first-timer among the ten—PepsiCo, which jumped to No. 7 from No. 14 last year.

Of the five companies that failed to hold a spot at the top, Procter & Gamble slipped from No. 4 to tie Coca-Cola at 13th; Liz Claiborne, which was No. 5, fell to 16th; and RJR Nabisco, formerly tied for No. 9, wound up 17th. (The votes were cast from September 13 to November 1, so most evaluations of RJR preceded Chairman Ross Johnson's ill-fated management buyout proposal, which was announced October 20 and culminated in his losing the company to Kohlberg Kravis Roberts.) J.P. Morgan's steeper fall from No. 8 to No. 21 matched the rather ill repute in which many financial institutions are held these days. Dow Jones, which publishes the *Wall Street Journal*, proved that fame can indeed be fleeting, tumbling from No. 3 to No. 24. Like many publishers, the company is suffering through a post-crash slump in financial advertising.

The reigning champ, Merck, beat the competition handily, taking first place in six of eight individual measures of reputation. Rated on a scale of ten in each category, Merck averaged 8.87 this year after a best-for-any-year 9.00 in the previous survey. Merck is expected to report an 18.5% sales increase for 1988, not far off the 22.6% of 1987; security analysts predict earnings per share will rise 36%, barely below the 37.7% of the year before. Try compounding *that* growth rate.

New products keep doing the job for Merck—among them the ulcer preparation Pepcid and cholesterol-lowering Mevacor. Last year's sales of the two-year-old cardio-

HOW IT WAS DONE

■ To compile the seventh annual Corporate Reputations Survey, FORTUNE polled nearly 8,000 senior executives, outside directors, and financial analysts. They were asked to rate the ten largest companies in their own industry (a shorter list in some cases) on eight attributes of reputation, using a scale of 0 (poor) to 10 (excellent). The attributes were quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; community and environmental responsibility; and wise use of corporate assets.

The survey covers 305 companies in 32 industry groups that appear in the FORTUNE 500 and FORTUNE Service 500 directories. Companies are assigned to a group according to the business that contributed most to 1987 sales. Industries with fewer than four major companies—jewelry and silverware, leather, toys and sporting goods—were excluded.

Mergers and buyouts have changed the ownership of many companies, but those that continue to file their own financial documents remain eligible for the list.

AT THE TOP & BOTTOM OF THE 305 COMPANIES

THE MOST ADMIRED

Merck retains the title as the most admired of 305 large U.S. companies. Shell, Herman Miller, Boeing, and Exxon return to the top after a year's absence or more, while PepsiCo makes its debut.

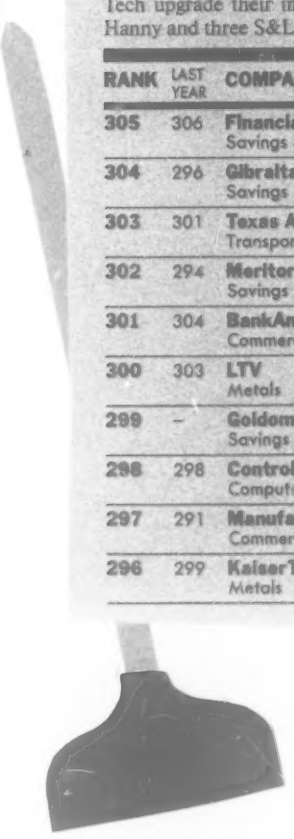
RANK	LAST YEAR	COMPANY	SCORE
1	1	**Merck** Pharmaceuticals	8.87
2	2	**Rubbermaid** Rubber products	8.41
3	6	**3M** Scientific/photographic equip.	8.18
4	7	**Philip Morris** Tobacco	8.15
5	9*	**Wal-Mart Stores** Retailing	8.12
6	21	**Exxon** Petroleum refining	8.05
7	14	**PepsiCo** Beverages	8.04
8	19	**Boeing** Aerospace	8.03
9	12	**Herman Miller** Furniture	7.99
10	11	**Shell Oil** Petroleum refining	7.96

*Wal-Mart was tied in score with RJR Nabisco last year.

THE LEAST ADMIRED

FCA heads the list of cellar dwellers for the second consecutive year. BankAmerica, LTV, and Kaiser-Tech upgrade their images a little, while Manny Hanny and three S&Ls are new to the bottom ten.

RANK	LAST YEAR	COMPANY	SCORE
305	306	**Financial Corp. of America** Savings institutions	1.82
304	296	**Gibraltar Financial Corp.** Savings institutions	3.34
303	301	**Texas Air** Transportation	3.67
302	294	**Meritor Financial Group** Savings institutions	3.70
301	304	**BankAmerica** Commercial banking	3.82
300	303	**LTV** Metals	3.88
299	–	**Goldome** Savings institutions	4.08
298	298	**Control Data** Computers (and office equip.)	4.17
297	291	**Manufacturers Hanover** Commercial banking	4.18
296	299	**KaiserTech** Metals	4.21



ILLUSTRATIONS BY IVAN CHERMAYEFF

vascular drug Vasotec are estimated to have jumped 60% to $1 billion, a record for any Merck product. The drug controls high blood pressure and is effective in treating heart attack patients. With one of the highest research and development budgets of any pharmaceutical company—$650 million, or 10.8% of sales, in 1988—and what security analysts consider one of the most productive research teams, Merck keeps its medicine chest full. "The very special thing we have," says Chairman P. Roy Vagelos, "is the ability to spot early those areas that might lead to breakthroughs, by being very good at the scientific side—biology and chemistry—while also being able to recognize the medical importance of what we discover."

Among the products now awaiting FDA approval are Plendil for high blood pressure; Losec, Merck's second ulcer drug; and a vaccine for childhood meningitis. Also in development is a drug called Proscar, which analysts say could be a blockbuster—it shows promise of shrinking enlarged prostates without surgery.

Like many of the top ten companies, No. 2 Rubbermaid has a sustained growth record it credits to a strong strategic plan for good times and bad. For the past five years, Rubbermaid has surpassed the goal Chairman Stanley Gault set in 1980: 15% average annual increases in sales, profits, and earnings per share. That's quite a feat for 1988, considering that price hikes on resin used to make many of the company's products—which range from toys and trash containers to dish drains—raised Rubbermaid's overall material costs by well over $100 million, or 50%. But thanks to tight expense controls, productivity improvements, and the company's first price increases in two years, Rubbermaid's 1988 earnings are estimated to have been up 17%, to $99 million, and sales up 18%, to $1.19 billion. Says Gault: "We set very demanding and ambitious objectives. But we meet them—best of all, we frequently exceed them." Ranked second overall for product quality and innovativeness, Rubbermaid aims to introduce 200 new products a year. A recent addition is plastic office furniture.

3M, sixth overall a year ago, is now No. 3. The maker of some 50,000 products ranging from Post-it notes and videocassettes to bioelectronic ears (implants that restore hearing for those with inner-ear damage), 3M earned its highest score, 8.58, for innovativeness. Says Theresa Gusman, a security analyst at Salomon Brothers: "3M gives people an environment in which they can create, and they just come up with brilliant idea after brilliant idea." The company aims to generate 25% of sales from products added in the past five years.

Philip Morris's reputation proved sound enough to withstand an apparent hit from the evaluators for some of its nontobacco acquisitions—and its big offer for Kraft occurred during the balloting. Ranking fourth overall and in the top three in long-term investment value, financial soundness, and ability to attract, develop, and keep talented people, the company scored only 42nd for wise use of corporate assets. Security analysts have criticized the performance of two earlier acquisitions, Miller Brewing and General Foods, and some say the $13 billion Philip Morris paid for Kraft could have been put to better use, such as a stock buyback.

"We have a great team spirit. Our people want to be the Marines. They want to be the finest. We hire eagles and teach them to fly in formation."

On the other hand, others applaud the company for using its tobacco earnings to diversify into potentially synergistic businesses and expand overseas. And even the critics can't fault a company much that is building volume (up 1.5% last year) in the highly profitable but shrinking domestic tobacco business. "We never let anybody think that just because the market is declining, that's any excuse for us to lose volume," says Chairman Hamish Maxwell.

Following a rigorous downsizing of operations and Draconian cost cuts, Exxon climbed back to the top ten. Still the second-largest U.S. industrial corporation behind General Motors (which rose from 254th to 231st this year), Exxon placed sixth overall and towered above its petroleum refining competitors in all but three measures of reputation. Its score of 9.34 for financial soundness was the highest awarded to any company on any attribute in this year's survey. Exxon's aggressive buyback of $13 billion in stock since 1983 has kept share earnings strong, while chemical profits and higher refining and marketing margins helped cushion last year's fall in crude oil prices.

Coca-Cola has a market edge over Pepsi in the global cola wars, but PepsiCo is, for now at least, the more admired soldier. The company ranked No. 7 overall and took first place in the beverage industry in six of eight attributes, including ability to get and keep good people. Says Chief Executive D. Wayne Calloway: "We have a great team spirit. Our people want to be the Marines. They want to be the finest. We hire eagles and teach them to fly in formation." PepsiCo has generated impressive profits from all three of its large and growing business lines: soft drinks, Frito-Lay snack foods, and restaurants—Kentucky Fried Chicken, Pizza Hut, Taco Bell. Security analysts estimate that PepsiCo's 1988 share earnings rose 26%.

Concentration of effort is one reason for PepsiCo's success. Once the owner of such diverse businesses as North American Van Lines and Wilson Sporting Goods, PepsiCo shed all its distractions outside the food and beverage business by 1986. That year it added Seven-Up International and MEI's soft drink business and then made its restaurant group the largest in the field by taking on Kentucky Fried Chicken. This gave it more outlets than McDonald's. Can the company maintain its momentum? Says Calloway: "We can be as big and successful as we allow ourselves to think we can be."

THANKS TO a boom in its commercial aircraft business, No. 8 Boeing boosted earnings 27% in 1988, according to security analyst estimates. The company wrote a record number of new plane orders worth nearly $30 billion last year, and the backlog (over 1,000 aircraft) is unprecedented. Boeing beat competitors in the aerospace industry in every measure of reputation and improved its overall score for product quality to third, from seventh last year. Still not satisfied, Chairman Frank Shrontz says, "We're putting a lot of emphasis on improving the quality of our products and our processes. Our objective is to be No. 1 in product quality and technical excellence."

How big is big? It depends on how you're

REPORTER ASSOCIATE *Susan E. Kuhn*

EIGHT KEY ATTRIBUTES OF REPUTATION

INNOVATIVENESS

MOST ADMIRED	SCORE
Merck	9.06
Rubbermaid	8.67
3M	8.58
LEAST ADMIRED	**SCORE**
Financial Corp. of America	2.78
BankAmerica	3.52
Gibraltar Financial	3.75

VALUE AS LONG-TERM INVESTMENT

MOST ADMIRED	SCORE
Merck	8.82
Philip Morris	8.80
Rubbermaid	8.39
LEAST ADMIRED	**SCORE**
Financial Corp. of America	0.60
Gibraltar Financial	2.50
LTV	3.00

COMMUNITY AND ENVIRONMENTAL RESPONSIBILITY

MOST ADMIRED	SCORE
Johnson & Johnson	8.31
E.I. du Pont de Nemours	8.16
Merck	8.10
LEAST ADMIRED	**SCORE**
Financial Corp. of America	2.38
Texas Air	3.27
Gibraltar Financial	4.07

ABILITY TO ATTRACT, DEVELOP, AND KEEP TALENTED PEOPLE

MOST ADMIRED	SCORE
Merck	8.96
Philip Morris	8.35
Wal-Mart Stores	8.20
LEAST ADMIRED	**SCORE**
Financial Corp. of America	1.42
Gibraltar Financial	3.15
LTV	3.32

FINANCIAL SOUNDNESS

MOST ADMIRED	SCORE
Exxon	9.34
Merck	9.22
Philip Morris	8.98
LEAST ADMIRED	**SCORE**
Financial Corp. of America	0.47
LTV	2.10
Texas Air	2.36

USE OF CORPORATE ASSETS

MOST ADMIRED	SCORE
Merck	8.54
Wal-Mart Stores	8.36
Rubbermaid	8.20
LEAST ADMIRED	**SCORE**
Financial Corp. of America	1.17
Gibraltar Financial	2.92
BankAmerica	3.06

QUALITY OF MANAGEMENT

MOST ADMIRED	SCORE
Merck	9.10
Wal-Mart Stores	9.08
Rubbermaid	8.98
LEAST ADMIRED	**SCORE**
Financial Corp. of America	2.36
Gibraltar Financial	3.36
Equitable Life Assurance	3.54

QUALITY OF PRODUCTS OR SERVICES

MOST ADMIRED	SCORE
Merck	9.10
Rubbermaid	9.09
Boeing	8.79
LEAST ADMIRED	**SCORE**
Texas Air	3.44
Financial Corp. of America	3.51
Meritor Financial Group and Gibraltar Financial (tie)	4.67

WHAT THEY DID FOR SHAREHOLDERS

MOST ADMIRED

COMPANY	TOTAL RETURN TO INVESTORS 1977-87 annual average
Merck	22.5%
Rubbermaid	26.3%
3M	15.1%
Philip Morris	23.4%
Wal-Mart	46.0%
Exxon	20.9%
PepsiCo	17.8%
Boeing	20.5%
Herman Miller	27.4%
Shell	N.A.
MEDIAN	22.5%
FORTUNE INDUSTRIAL 500 MEDIAN	17.2%
FORTUNE SERVICE 500 MEDIAN	16.9%

LEAST ADMIRED

COMPANY	TOTAL RETURN TO INVESTORS 1977-87 annual average
Financial Corp. of America	0.7%
Gibraltar Financial	−5.4%
Texas Air	4.0%
Meritor Financial Group	0.5%
BankAmerica	−6.7%
LTV	−8.1%
Goldome	N.A.
Control Data	5.4%
Manufacturers Hanover	3.6%
KaiserTech	0.6%
MEDIAN	0.6%

measuring. With fiscal 1988 sales of $714 million, Herman Miller, the office furniture maker, is the smallest of the ten most admired. But in terms of reputation, it rose to No. 9 and ranked fourth overall in quality of products and services and sixth for management and innovativeness. Says CEO Richard Ruch: "Our core values center around innovation, not just in product design but also in the way we manage." Since 1950, Herman Miller has had a participative management system in which all employees share in decision-making as well as profits.

Widely regarded as a leader in furniture design, Herman Miller has several of its works from the 1950s and 1960s exhibited in New York's Museum of Modern Art and other places of honor. The new form-fitting Ergon 2 office chair is a masterpiece in its own right. Named by FORTUNE in December as one of the 12 products of the year, the Ergon 2 has generated $50 million in sales since its introduction in June.

Shell Oil, the U.S. subsidiary of the Royal Dutch/Shell Group, advanced one notch to No. 10 despite a difficult year. Lower oil prices and an explosion at Shell's Norco, Louisiana, refinery, which cut gasoline production, hurt the company's performance. While profits were rising at most big oil companies in 1988, Shell's earnings declined for two quarters. But security analysts insist these troubles are temporary and say the company is well positioned for the longer term. "Shell keeps honing all its operations continually," says Benjamin Rice, an analyst at Brown Brothers Harriman.

At the other end of the scorecard, six of this year's cellar dwellers have hit the depths at least once before. Two—Financial Corp. of America, the least admired for the second straight year, and LTV, holder of that title two years ago—are bankrupt in fortune as well as reputation. FCA, based in Irvine, California, scored last in all but one attribute evaluated, and its overall score of 1.82 is the lowest recorded in the survey's seven years. FCA filed for bankruptcy in September, shortly after thrift regulators seized its chief operating subsidiary, American Savings, recently sold to a group headed by Robert Bass.

Manville and Bethlehem Steel escaped from the bottom ten this year. Manville climbed six notches in the rankings to place 12th from the bottom; solidly restructured under the firm hand of Chief Executive W. Thomas Stephens, it was about to emerge from bankruptcy at the time of the survey. Higher steel prices and a strong management effort to improve productivity and otherwise restore the company to good health helped lift Bethlehem Steel's financial results; in the survey, it jumped 26 places to 276th.

The rising tide in the steel industry buoyed several scores. Bethlehem and two other steelmakers—Inland Steel and LTV—were among the ten companies whose rankings improved the most in this year's survey. While "voluntary" import quotas and a weak dollar have helped fuel Big Steel's resurgence, the industry has also whipped itself into better competitive shape by shedding capacity and reducing operating costs. Chicago-based Inland, for example, has since 1982 reduced its work force over 40% to 21,700, trimmed capacity by 30%, and improved productivity (man-hours per ton of steel) by about the same percentage. The changes are beginning to yield excellent returns. Analysts expect Inland to post record earnings of $260 million in 1988. Profits for the industry, which lost some $12 billion between 1982 and 1986, will exceed $2 billion.

JUST AS an industry's good fortune can lift the reputations of its members, so its decline can drag them down. While two money-losing S&Ls—Gibraltar Financial and Meritor Financial Group—undoubtedly deserve their place among the survey's ten biggest point losers, even the strong and profitable Great Western Financial and H.F. Ahmanson, the two most admired in the business, saw their scores decline.

For the most part, however, the companies whose scores fell the most have much publicized problems. Floundering food giant Pillsbury tumbled further than any other company on the list—to No. 277 overall from No. 85. Its profits had been slumping before it agreed to be acquired by British behemoth Grand Metropolitan in December. Equitable Life Assurance's deteriorating financial condition, stemming from a bad gamble on interest rate–sensitive products, matched its sharp drop in score. Writes a survey respondent: "Equitable's troubles may drag the whole

BIG RETURNS AT THE TOP

The most admired companies have delivered first-rate returns to shareholders year after year. Wal-Mart's average annual return (dividends plus appreciation in the stock) over the past ten years leads all 305 companies surveyed. The least admired group is short on payoff as well as reputation.

life insurance industry to a new low."

Overall, 1988 wasn't a good year for banks. Manufacturers Hanover (No. 297) was deposited in the bottom ten for the first time. It joins BankAmerica, which has been there for four straight years. A $1.7 billion addition to loan loss reserves contributed to Manny Hanny's record deficit of $1.14 billion in 1987. But while it's the biggest U.S. bank lender to Argentina and is still paying the price for its eagerness to make loans in Latin America and the Southwest, the bank's cost controls and asset sales bolstered earnings last year.

REPUTATIONS, which sometimes can be lost in a hurry, often are difficult to rebuild. IBM topped the most admired list for the first four years before losing out to Merck in 1986. But even after emerging from a three-year earnings slump in 1988, IBM dropped two notches in the survey and is now ranked 34th. For the first time, IBM lost its No. 1 spot in its own industry—it slipped to No. 3—as Hewlett-Packard got the top score and Apple placed second.

Despite its continuing drop in the rankings, IBM's overall score did improve slightly this year, suggesting that some of Chairman John Akers's efforts to revitalize the corporation are beginning to be recognized. After revamping its product line and improving its responsiveness to customers, IBM gained more points for quality of products or services than any other attribute; it jumped to No. 64 from No. 92. Following a sweeping internal housecleaning and a series of management shuffles, however, IBM slipped from No. 24 to No. 40 in ability to attract, develop, and keep talented people.

James Pasman, head of KaiserTech, which ranked a sorry 296th, knows how hard it is to restore a tarnished reputation. Since 1984, KaiserTech has shed its panoply of nonaluminum businesses, ranging from chemicals to food service packaging, and used the proceeds to reduce debt 52%, to $755 million. That transformation, coupled with a rise in aluminum prices and corporate cost reductions, helped put KaiserTech back in the black in 1988 after six money-losing years. Then, in October, along came Maxxam Group to buy the company, paying shareholders a 28% premium. Says Pasman: "I think KaiserTech is a very different company from what it's remembered to be but, unfortunately, perceptions often don't change as fast as the facts." Especially when the perceptions are negative.

BIGGEST GAINERS & LOSERS

BIGGEST GAINS OVER LAST YEAR

UAL, formerly called Allegis, led last year's big point losers. But after a change in name and management, the parent of United Airlines improved dramatically. Many other large gainers this year are reaping the rewards of major restructuring.

COMPANY	CHANGE	PERCENT	SCORE
Bethlehem Steel	+1.43	38.8	5.12
UAL	+1.42	30.2	6.12
Minstar	+0.95	18.8	6.01
Inland Steel Industries	+0.90	16.9	6.22
Fruit of the Loom	+0.82	16.5	5.78
Federal National Mortgage Association	+0.80	14.5	6.30
Premark International	+0.77	12.4	6.99
LTV	+0.64	19.8	3.88
Joseph E. Seagram & Sons	+0.63	11.1	6.32
BankAmerica and Amax (tie)	+0.61 +0.61	19.0 12.0	3.82 5.71

BIGGEST LOSSES OVER LAST YEAR

Sagging profits, sinking stock prices, and the sins of second-rate management sullied the reputations of many of this year's biggest losers. Gibraltar and Meritor both landed in the bottom ten overall. Federated and Pillsbury have been acquired.

COMPANY	CHANGE	PERCENT	SCORE
Pillsbury	−1.72	−25.2	5.10
Equitable Life	−1.38	−23.4	4.51
Harsco	−1.18	−16.8	5.86
Avon Products	−1.11	−17.8	5.13
Gibraltar Financial	−1.02	−23.4	3.34
Fieldcrest Cannon	−1.00	−16.1	5.21
Federated Department Stores	−0.99	−17.6	4.62
Northrop	−0.92	−14.9	5.27
SmithKline Beckman	−0.88	−14.5	5.18
Meritor Financial Group	−0.86	−18.9	3.70

HOW COMPANIES RANK IN 32 INDUSTRIES

Industry groups are based on U.S. Office of Management and Budget categories. Companies are assigned to industries according to the business that contributed most to 1987 sales.

MINING, CRUDE-OIL PRODUCTION

Freeport-McMoRan and Vulcan share the top spot, but Mitchell beats them both in social responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Freeport-McMoRan	6.67
1	3	Vulcan Materials	6.67
3	5	Cyprus Minerals	6.27
4	4	Louisiana Land & Exploration	6.01
4	2	Mitchell Energy	6.01
6	7	Union Texas	5.96
7	6	Nerco	5.90
8	8	Westmoreland Coal	5.36
9	–	Maxus Energy[1,2]	5.34
10	9	Inspiration Resources	5.23

PETROLEUM REFINING

Shell is displaced by Exxon, but still leads in quality of products and ability to attract talented people.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Exxon	8.05
2	1	Shell Oil	7.96
3	3	Amoco	7.58
4	4	Arco	7.27
5	6	Mobil	7.04
6	–	BP America[1]	6.85
7	5	Chevron	6.82
8	9	USX	5.48
9	7	Tenneco	5.09
10	10	Texaco	4.64

UTILITIES

BellSouth, which rang up the highest profit in its industry in 1987, ousts former leader Bell Atlantic.

RANK	LAST YEAR	COMPANY	SCORE
1	2	BellSouth	7.57
2	1	Bell Atlantic	7.48
3	3	American Information Tech.	7.27
4	5	Pacific Telesis Group	7.20
5	4	Nynex	7.00
6	7	Southwestern Bell	6.91
7	6	US West	6.85
8	8	Pacific Gas & Electric	6.55
9	10	GTE	6.49
10	9	Southern	6.18

FOREST PRODUCTS

Kimberly-Clark, the maker of Kleenex tissues and Huggies diapers, leads in all categories but social responsibility, where Weyerhaeuser is most admired.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Kimberly-Clark	7.38
2	2	Scott Paper	6.88
3	5	Mead	6.79
4	4	James River Corp. of Virginia	6.56
5	7	Weyerhaeuser	6.45
6	8	Boise Cascade	6.34
7	6	Georgia-Pacific	6.25
8	–	Stone Container	6.02
9	9	Champion International	5.96
10	10	International Paper	5.76

PHARMACEUTICALS

Led by top-ranking Merck, the industry has a median score of 7.11, the highest of all 32 groups surveyed.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Merck	8.87
2	2	Johnson & Johnson	7.93
3	3	Abbott Laboratories	7.67
4	4	Eli Lilly	7.61
5	5	Bristol-Myers	7.55
6	6	Pfizer	6.66
7	9	Warner-Lambert	6.56
8	7	American Home Products	6.37
9	8	Baxter International[2]	6.17
10	10	SmithKline Beckman	5.18

CHEMICALS

New leader Dow is expected to report 1988 per share earnings that are double the prior year's. Runner-up Du Pont still leads in five measures of reputation.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Dow Chemical	7.92
2	1	Du Pont	7.84
3	3	Bayer USA	6.86
4	6	BASF	6.63
5	4	American Cyanamid	6.50
6	5	Monsanto	6.44
7	7	Hoechst Celanese	6.41
8	–	Hanson Industries NA[1]	5.58
9	9	W.R. Grace	5.03
10	10	Union Carbide	4.78

TEXTILES

Springs leaps to No. 1, having shifted its focus away from apparel toward the growing home and industrial fabrics businesses. Guilford leads in three traits.

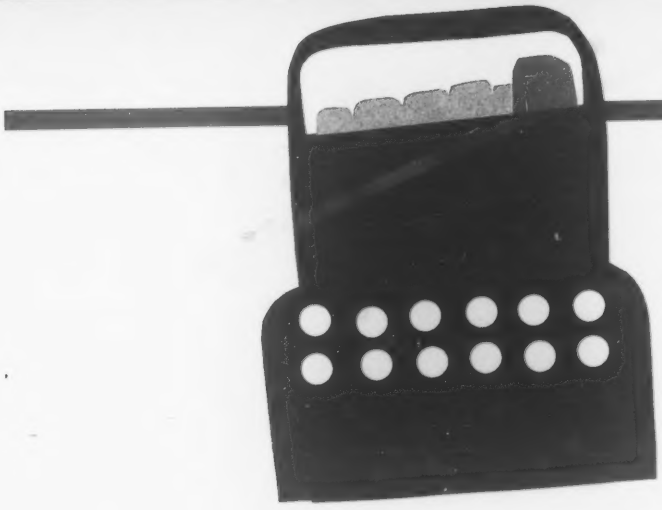
RANK	LAST YEAR	COMPANY	SCORE
1	3	Springs Industries	7.12
2	–	Guilford Mills[1]	7.04
3	1	Armstrong World Industries	6.92
4	4	Shaw Industries	6.90
5	2	West Point-Pepperell	6.64
6	–	Dixie Yarns[1]	6.62
7	8	DWG	5.59
8	7	Fieldcrest Cannon	5.21
9	9	Burlington Holdings	4.86
10	10	United Merchants & Mfrs.	4.26

RUBBER PRODUCTS

Although four new companies have joined the industry, Rubbermaid is still No. 1 for all eight attributes.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Rubbermaid	8.41
2	3	Cooper Tire & Rubber	7.05
3	4	Premark International	6.99
4	2	Goodyear Tire & Rubber	6.82
5	–	Standard Products[1]	6.52
6	–	Carlisle[1]	5.99
6	5	GenCorp	5.99
8	6	Armtek[3]	5.82
9	–	Envirodyne Industries[1]	5.81
10	–	Knoll International[1]	4.89

Not ranked last year
Name changed from Baxter Travenol Labs
Acquired by Mark IV Industries



RETAILING

Wal-Mart takes first place in seven categories. Newcomer Dayton Hudson wins in social responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Wal-Mart Stores	8.12
2	–	Dayton Hudson[1]	6.46
3	3	J.C. Penney	6.41
4	2	May Department Stores	6.40
5	5	K mart	6.27
6	6	Sears Roebuck	5.60
7	4	Kroger	5.48
8	7	American Stores	5.19
9	10	Safeway Stores	4.84
10	8	Federated Department Stores[2]	4.62

SOAPS, COSMETICS

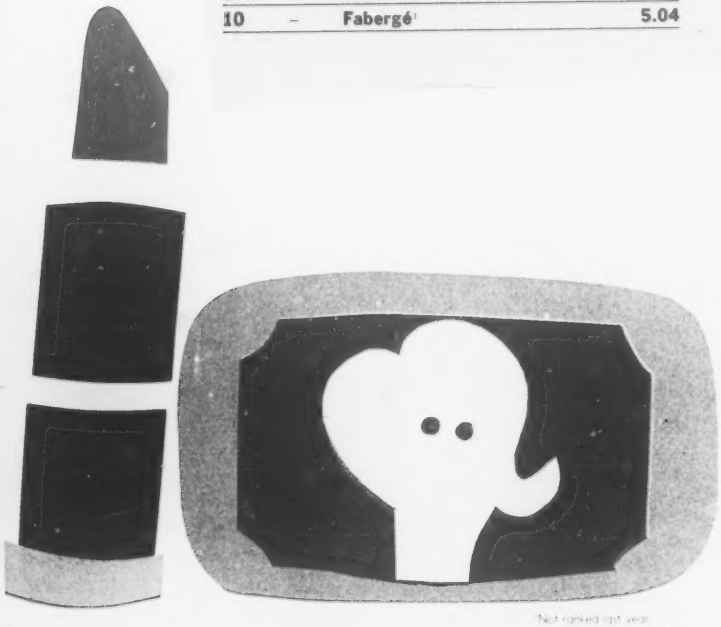
Strong sales and earnings have helped keep P&G head and shoulders above the competition. Revlon moves up to No. 7 after a corporate makeover.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Procter & Gamble	7.90
2	2	Intl. Flavors & Fragrances	7.20
3	4	Lever Brothers	7.06
4	3	Colgate-Palmolive	6.76
5	5	Clorox	6.52
6	6	Chesebrough-Pond's	6.14
7	10	Revlon Group	5.45
8	8	Ecolab	5.18
9	7	Avon Products	5.13
10	–	Fabergé[1]	5.04

APPAREL

Though Liz Claiborne falls out of the overall top ten this year, it still sets the fashion in its group. Oxford's image unravels after a string of quarterly losses.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Liz Claiborne	7.82
2	2	VF	7.44
3	3	Hartmarx	6.57
4	4	Kellwood	6.51
5	5	Interco	6.15
6	7	Phillips-Van Heusen	5.83
7	8	Leslie Fay	5.80
8	10	Fruit of the Loom[2]	5.78
9	9	Warnaco Group	5.56
10	6	Oxford Industries	5.55



FURNITURE

Herman Miller holds on to the winning seat. Hon, which falls four places, ranks last among its peers for product quality and ability to attract talented people.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Herman Miller	7.99
2	–	Masco[1]	7.52
3	2	Leggett & Platt	6.92
4	–	Ohio Mattress[1]	6.76
5	–	Kimball International[1]	6.46
6	4	Bassett Furniture Industries	6.03
7	3	Hon Industries	5.98
8	5	Mohasco[2]	5.93

[1] Not ranked last year
[2] Acquired by Compaq Corp.
[3] Formerly Farley Northwest Industries
[4] No. 2 in metal products last year
[5] Acquired by MHS Holdings

BEVERAGES

PepsiCo is tops in six categories, but Coca-Cola beats it in quality of products and financial soundness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	PepsiCo	8.04
2	3	Coca-Cola	7.90
3	2	Anheuser-Busch	7.70
4	–	Coca-Cola Enterprises[1]	6.54
5	6	Joseph E. Seagram & Sons	6.32
6	4	General Cinema	6.31
7	5	Adolph Coors	6.25
8	7	Brown-Forman	6.20

TOBACCO

Philip Morris leads in six attributes; RJR, evaluated before it was bought out by Kohlberg Kravis Roberts, takes first place for asset use and innovativeness.

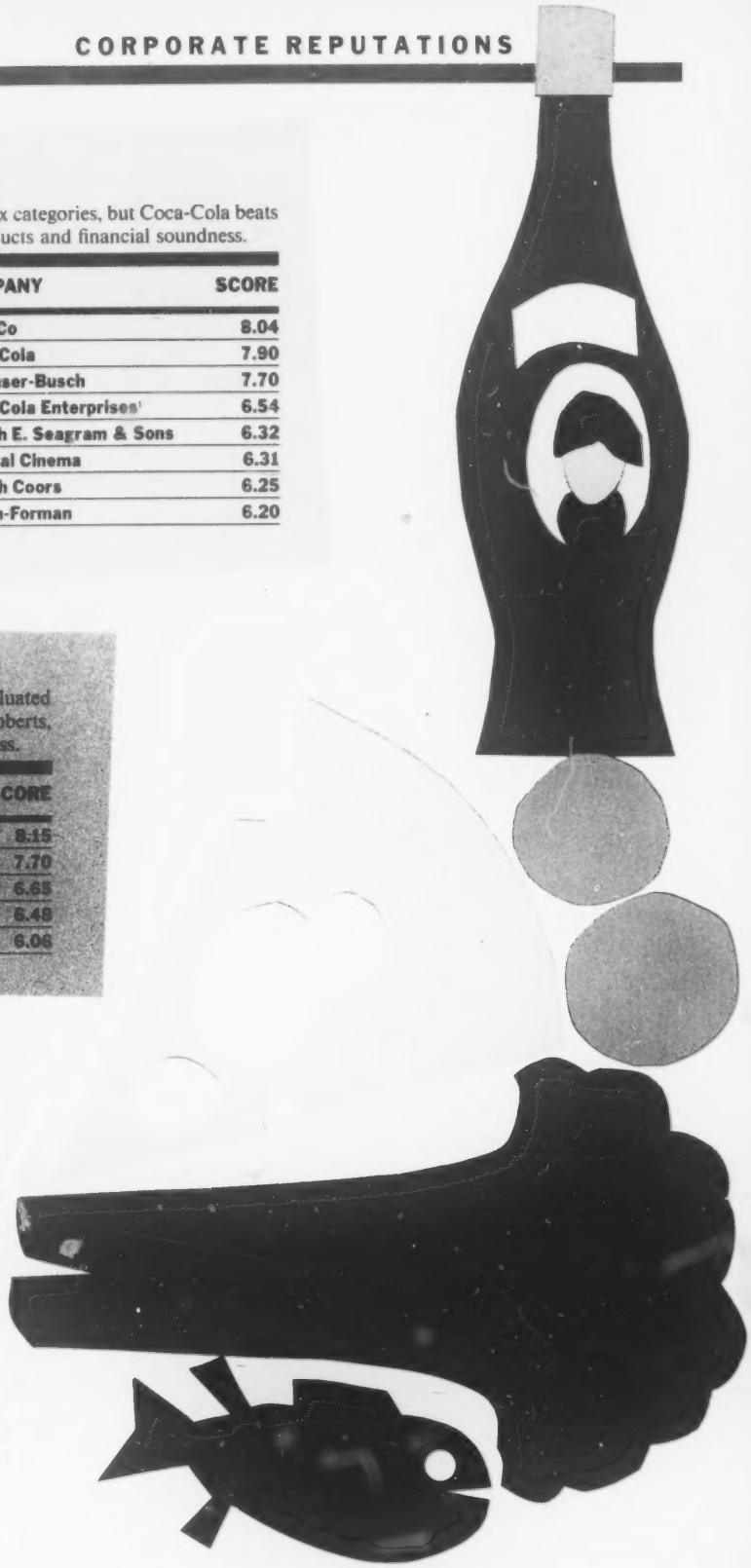
RANK	LAST YEAR	COMPANY	SCORE
1	1	Philip Morris	8.15
2	2	RJR Nabisco	7.70
3	3	UST[3]	6.65
4	–	Universal[4]	6.48
5	4	American Brands	6.06

FOOD

Sara Lee, which had record earnings and sales in fiscal 1988, has led for three straight years. Despite its name, Occidental packs more beef than it pumps oil.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Sara Lee	7.62
2	2	General Mills	7.21
3	5	Kraft[2]	7.09
4	4	ConAgra	6.82
5	6	Ralston Purina	6.63
6	7	Borden	6.58
7	8	Archer Daniels Midland	6.16
8	3	Pillsbury	5.10
9	–	Beatrice[1]	4.99
10	10	Occidental Petroleum	4.98

[1]Not ranked last year.
[2]Acquired by Philip Morris.
[3]Formerly United States Tobacco.
[4]Name changed from Universal Leaf Tobacco.



SAVINGS INSTITUTIONS

Despite a decline in its overall score, Great Western finishes first in all eight attributes of reputation.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Great Western Financial	7.46
2	2	H.F. Ahmanson	6.99
3	4	Home Federal Savings & Loan	6.82
4	7	Glenfed	6.03
5	6	Calfed	5.92
6	5	Great American First Savings	5.65
7	–	Goldome[1]	4.08
8	8	Meritor Financial Group	3.70
9	9	Gibraltar Financial	3.34
10	10	Financial Corp. of America	1.82

DIVERSIFIED FINANCIAL

Industry leader Amex takes top billing in five traits. FNMA, the nation's largest private investor in residential mortgage loans, leaps to fourth place.

RANK	LAST YEAR	COMPANY	SCORE
1	1	American Express	7.57
2	2	Morgan Stanley Group	7.19
3	–	American International Group[1]	6.62
4	10	Federal National Mortgage Assn.	6.30
5	3	First Boston	6.25
6	4	Salomon	6.20
7	6	Aetna Life & Casualty	6.09
8	8	Merrill Lynch	5.83
9	9	Cigna	5.75
10	7	Travelers	5.60

DIVERSIFIED SERVICE

EDS is No. 1 in six traits; Capital Cities in management quality; Hospital Corp. in social responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Electronic Data Systems	7.01
2	–	Capital Cities Comm./ABC[1]	6.57
3	3	McKesson	6.52
4	–	Ryder System[1]	6.33
5	4	Super Valu Stores	6.13
6	7	Hospital Corp. of America	6.02
7	6	Fleming Cos.	5.93
8	–	ARA Holding[1]	5.72
9	9	Fluor	5.68
10	10	National Intergroup	5.22

COMMERCIAL BANKING

Though J.P. Morgan drops off the most admired list, it still brightens the image of this sorry bunch, which has the lowest median score of any group.

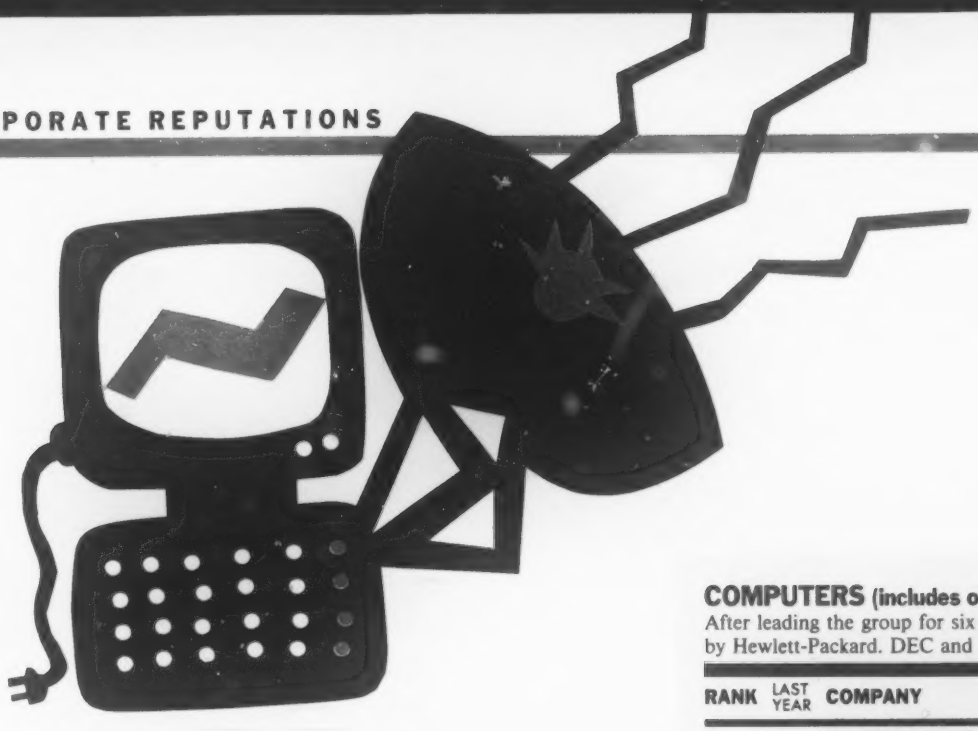
RANK	LAST YEAR	COMPANY	SCORE
1	1	J.P. Morgan	7.65
2	3	Citicorp	6.97
3	2	Bankers Trust New York	6.88
4	5	Security Pacific	6.52
5	–	First Chicago[1]	5.44
6	6	First Interstate Bancorp	5.32
7	7	Chase Manhattan	5.31
8	8	Chemical Banking[2]	5.10
9	9	Manufacturers Hanover	4.18
10	10	BankAmerica	3.82

LIFE INSURANCE

Northwestern Mutual, which ranks No. 45 overall this year, has led its industry in all seven surveys.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Northwestern Mutual Life	7.22
2	2	Prudential of America	7.05
3	3	Aetna Life	6.24
4	4	Metropolitan Life	6.19
5	10	New York Life	6.05
5	9	Teachers Insurance & Annuity	6.05
7	5	Connecticut General Life	5.95
8	7	John Hancock Mutual Life	5.77
9	6	Travelers	5.32
10	8	Equitable Life Assurance	4.51

[1] Not ranked last year.
[2] Name changed from Chemical New York Corp.



PUBLISHING, PRINTING

Dow Jones is tops in five categories, but Gannett leads in innovativeness, Washington Post in investment value, New York Times in social responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Dow Jones	7.60
2	4	Washington Post	7.36
3	2	New York Times	7.33
4	3	Gannett	7.01
5	9	Tribune	6.88
6	8	Time Inc.	6.86
7	7	R.R. Donnelley & Sons	6.82
7	5	Times Mirror	6.82
9	6	Knight-Ridder	6.74
10	10	McGraw-Hill	5.73

ELECTRONICS

General Electric falls from 16th to 40th overall in this year's rankings, but it's still the leader of its group.

RANK	LAST YEAR	COMPANY	SCORE
1	1	General Electric	7.34
2	2	Emerson Electric	6.96
3	4	Motorola	6.84
4	3	American Telephone & Telegraph	6.81
5	6	Texas Instruments	6.66
6	5	Raytheon	6.58
7	7	TRW	6.37
8	8	Westinghouse Electric	6.24
9	9	Honeywell	6.04
10	10	ITT	5.45

COMPUTERS (includes office equipment)

After leading the group for six years, IBM is ousted by Hewlett-Packard. DEC and Apple switch places.

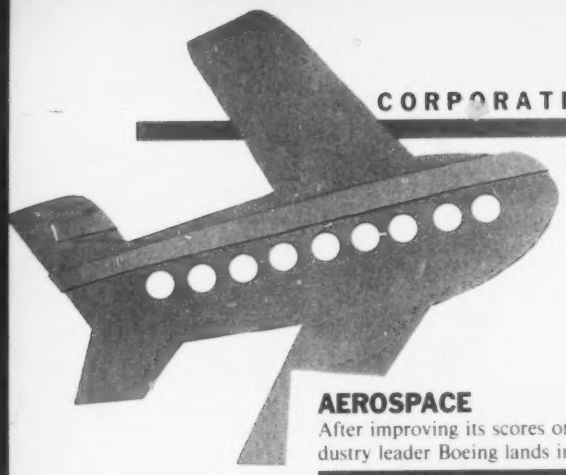
RANK	LAST YEAR	COMPANY	SCORE
1	3	Hewlett-Packard	7.60
2	4	Apple Computer	7.48
3	1	IBM	7.46
4	2	Digital Equipment	7.14
5	5	NCR	6.17
6	–	Amdahl[1]	5.85
7	7	Pitney Bowes	5.45
8	6	Unisys	5.33
9	8	Wang Laboratories	4.66
10	10	Control Data	4.17

SCIENTIFIC AND PHOTOGRAPHIC EQUIPMENT

3M, the industry leader for six years in a row, makes its fourth appearance in the overall top ten this year.

RANK	LAST YEAR	COMPANY	SCORE
1	1	3M	8.18
2	2	Eastman Kodak	7.26
3	3	Xerox	6.95
4	5	EG&G	6.80
5	6	Becton Dickinson	6.28
6	4	Polaroid	6.17
7	7	Perkin-Elmer	6.14
8	8	Tektronix	6.01
9	10	General Signal	5.90
10	–	Fisher Scientific Group[1]	5.69

[1] Not ranked last year



AEROSPACE

After improving its scores on all eight attributes, industry leader Boeing lands in the top ten overall.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Boeing	8.03
2	2	Martin Marietta	7.10
3	3	Rockwell International	6.46
4	4	Lockheed	6.39
5	5	McDonnell Douglas	6.17
6	7	General Dynamics	6.10
7	6	United Technologies	5.69
8	9	Textron	5.54
9	10	Allied-Signal	5.40
10	8	Northrop	5.27

MOTOR VEHICLES AND PARTS

With hot-selling models like the Taurus and Sable, Ford is parked in first place. Mack slips, but its projected 1988 earnings were up over 400%.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Ford Motor	7.51
2	2	Dana	6.71
3	4	Paccar	6.34
4	3	Chrysler	6.17
5	–	Echlin[1]	5.87
6	–	Arvin Industries[1]	5.76
7	7	General Motors	5.70
8	8	Navistar International	5.59
9	6	Mack Trucks	5.48
10	9	Fruehauf	4.61

INDUSTRIAL AND FARM EQUIPMENT

No. 1 Cat is now in the midst of a vast plant modernization program. Renewed demand for tractors and other farm equipment pushes Deere to No. 2.

RANK	LAST YEAR	COMPANY	SCORE
1	4	Caterpillar	7.09
2	6	Deere	6.84
3	3	Black & Decker	6.80
4	1	Cummins Engine	6.38
5	7	Ingersoll-Rand	6.19
6	5	Brunswick	6.16
7	9	Dresser Industries	5.91
8	–	Trinova[1]	5.88
9	10	Baker Hughes	5.83
10	8	American Standard[2]	5.66

TRANSPORTATION

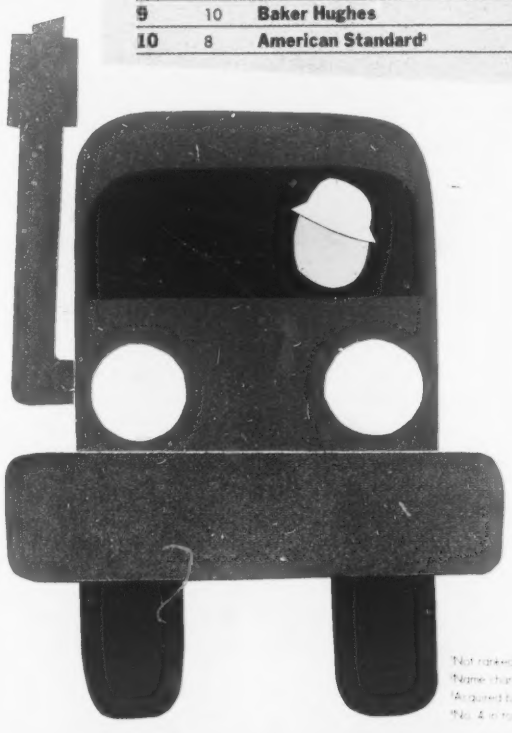
UPS finishes first in seven measures, but AMR, American Airlines' parent, leads in innovativeness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	United Parcel Service	7.66
2	2	AMR	7.10
3	3	Delta Air Lines	6.97
4	5	Union Pacific	6.37
5	6	Burlington Northern	6.14
6	9	UAL[1]	6.12
7	7	CSX	5.92
8	–	NWA[1]	5.36
9	8	Santa Fe Southern Pacific	5.13
10	10	Texas Air	3.67

TRANSPORTATION EQUIPMENT

Harley-Davidson, which controls 40% of the U.S. heavy motorcycle market, drives into first place; International Controls takes the back seat again.

RANK	LAST YEAR	COMPANY	SCORE
1	–	Harley-Davidson[1]	7.00
2	1	Fleetwood Enterprises	6.93
3	–	Minstar[1]	6.01
4	4	International Controls	5.25



[1] Not ranked last year
[2] Name changed from Allegis
[3] Acquired by Kelso & Co.
[4] No. 4 in now-sporting goods last year

BUILDING MATERIALS

Corning, the maker of Steuben crystal and Pyrex cookware, received its highest score for product quality. USG falls four places after assuming huge debts.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Corning Glass Works	7.46
2	2	PPG Industries	7.00
3	4	Owens-Corning Fiberglas	6.19
4	6	Norton	6.16
5	5	Owens-Illinois	5.95
6	–	Lafarge[1]	5.58
7	3	USG	5.48
8	7	Jim Walter	5.47
9	9	National Gypsum	4.92
10	10	Manville	4.50

METAL PRODUCTS

Illinois Tool, No. 1 for the second year, leads in seven measures; Gillette is first for product quality.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Illinois Tool Works	7.14
2	3	Stanley Works	6.83
3	–	Masco Industries[1]	6.77
4	4	Gillette	6.53
5	5	Ball	6.45
6	7	Emhart	6.28
7	6	Crown Cork & Seal	6.14
8	–	Tyco Laboratories[1]	6.11
9	–	Harsco[4]	5.86
10	8	Triangle Industries	5.38

METALS

Now benefiting from a major restructuring and higher aluminum prices, top-scoring Alcoa is expected to report a 330% rise in 1988 share earnings.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Aluminum Co. of America	6.94
2	2	Reynolds Metals	6.83
3	4	Inland Steel Industries	6.22
4	–	Phelps Dodge[1]	5.86
5	–	Amax[2]	5.71
6	7	Armco	5.32
7	5	Penn Central	5.16
8	9	Bethlehem Steel	5.12
9	8	KaiserTech[3]	4.21
10	10	LTV	3.88

[1]Not ranked last year.
[2]No. 10 in mining, crude-oil production last year.
[3]Acquired by Maxxam Group.
[4]No. 2 in transportation equipment last year.

JAPAN'S GUNG-HO U.S. CAR PLANTS

Leaping the oceans with the latest technology, Japanese managers are drilling their own ways into enthusiastic—but sometimes stressed-out—American workers. ■ *by Louis Kraar*

THIS IS THE new wave of Japanese exports that may in the end have the most profound effect of them all: the car factories that are shaking up small American communities and transforming the workplace culture. Japan's Auto Alley, which cuts through six heartland states, already provides over 15,000 assembly jobs. Mazdas are made in Michigan, Hondas in Ohio, Toyotas in Kentucky, and Nissans in Tennessee. Mitsubishi, in a joint venture with Chrysler, is gearing up in Illinois, while Subaru and Isuzu are building a plant in Indiana. Not by accident, the Japanese are injecting their high-tech equipment into mostly rural areas, far from unions and experienced auto workers who, in the words of President Tetsuo Chino of Honda North America, "might have some bad habits."

As outposts of production methods long triumphant in the world market, the factories of Japan's Auto Alley are a tremendous boon for the U.S. Their managers have trained and motivated American workers to turn out cars of a quality comparable to the made-in-Japan original—a feat with far-reaching implications for the rest of U.S. manufacturing. The achievement, like any of such magnitude, is not without its costs.

Tranquil towns where few ever bothered to lock their doors find that a big, new auto factory brings social and fiscal strains as well as paychecks. Jobs at the auto transplants can be grueling: Veteran U.S. operators such as Nissan are having to work at maintaining the initial enthusiasm on the factory floor. To Detroit's Big Three, Japan's Auto Alley represents a huge addition to capacity in an industry that is padlocking surplus plants. If facilities in Canada are included, Japan's automakers will be able to turn out 2.2 million cars and light trucks a year in North America by the early 1990s—roughly equivalent to Chrysler's sales last year.

To win these new payrolls, state and local governments dangled incentives that seem excessive even by the standards of such bidding contests. Kentucky's package of goodies to cash-rich Toyota, including interest on funds the state had to borrow, will cost its citizens more than $280 million over 20 years. The cost of the come-ons per job created, which worked out to $11,000 when Tennessee bagged Nissan in 1980, ballooned to $50,000 in Kentucky. Wallace Wilkinson, who won the governorship after sharply criticizing this largess, has discovered that most of Kentucky's federal funds for job training are committed to Toyota.

The transplants profess to be equal opportunity employers, but their location strategy tells another story. Robert E. Cole, a University of Michigan business professor, has spotted keen Japanese interest in the ethnic composition of American communities they select and accuses Japanese automakers of deliberately avoiding blacks. U.S. makers of auto parts claim to see discrimination of another sort. So far, most components of cars built in Japan's Auto Alley are made by Japanese companies, either at home or here.

MASAHIRO UCHIDA, executive vice president of Mazda's Michigan operation, finds nothing wrong with this: "We didn't force our suppliers to come here. Of course, they have worked with us in Japan for a long time, so we have a good relationship and they know how Mazda operates." Mazda says the reject rate for U.S. parts from American companies is anywhere from three to five times higher than for those from Japanese-run suppliers. Nissan says the reject rate is twice as high.

More often than not, U.S. suppliers are entrusted with such items as seats, tires, glass, and office supplies. Mike Plumley, chairman of Plumley Companies Inc. of Paris, Tennessee, is proud of persuading Japanese transplants to buy rubber parts after a long effort. "The opportunity is there for anybody who wants to get it," he says, "but the weak aren't going to make it."

In Marysville, Ohio, all ranks eat together in the cafeteria and wear white Honda uniforms.

In Bluegrass Country, Toyota's "personal touch" program picks up part of the tab when Japanese and American employees bowl together.

Neither will ineffectual local governments, hidebound union leaders, or slackers on the assembly line. But while this cross-cultural drama is still unfolding, the evidence to date indicates that the problems are transitional and the benefits can be permanent. Take, for example, Georgetown, Kentucky (pop. 12,500). Huge semitrailers routinely take an illegal shortcut to the Toyota plant by rumbling down tiny Main Street, where farmers from the surrounding Bluegrass Country like to sit on sidewalk benches and chat. "We're bombarded with trucks," complains William L. Hamilton, an insurance broker and president of the chamber of commerce. If the community had known that Toyota was coming, he says, Georgetown could have persuaded the state to build a bypass road along with the four-lane highway it provided the plant.

Further dismaying the strait-laced town, the Osaka Health Spa, a massage parlor, opened just a block from city hall while the plant was under construction. An Oriental at the spa, according to her arrest record, dispensed more than massages. "We busted her for prostitution," says Mayor Tom Prather, 37, "but could not shut down the place."

The stress of accommodating Toyota prompted Prather's predecessor to resign in September 1986, after only nine months in office. Prather had to persuade Toyota to pay for expanding municipal services. Toyota put its $1.1 billion factory in Scott County, just outside Georgetown's boundaries—and taxing authority. Prather recalls telling managers of the auto plant: "If your coming here is going to remain a positive event for Georgetown, we've got to have a revenue stream." After four months of negotiations, Toyota agreed to have its plant annexed into Georgetown.

Toyota's presence has raised everyone's taxes. To get more revenue, the town imposed a 1% tax on wages and salaries atop an identical county tax Georgetowners already paid. Prather's municipal budget has nearly doubled to $4 million, enabling the city to bolster the police force with more men and vehicles and renovate city hall. Realizing that many local people felt shortchanged, Toyota has donated $1 million for a community center, plus ten cars to the city and county. The automaker also contributes an amount equal to the school taxes it is exempt from paying and voluntarily services the loan for a new sewer plant. A Toyota executive insists that the automaker wants to preserve the quality of life that attracted it to Georgetown.

BEFORE NISSAN BUILT its car and truck plant in Smyrna, Tennessee (pop. 14,000), local officials made certain that the company would pay for most of the municipal services it required. The town runs a budget surplus. Honda has brought prosperity without upsetting its host communities in Ohio. The Japanese automaker, which began modestly in Marysville (pop. 8,000) with a motorcycle assembly operation in

REPORTER ASSOCIATE *Rosalind Klein Berlin*

PHOTOGRAPHS BY LOUIS PSIHOYOS—MATRIX

Privacy? Toyota's Kentucky chief, Fujio Cho, must get along with his No. 2.

people." Toyota can afford to be choosy because the state picks up much of the bill.

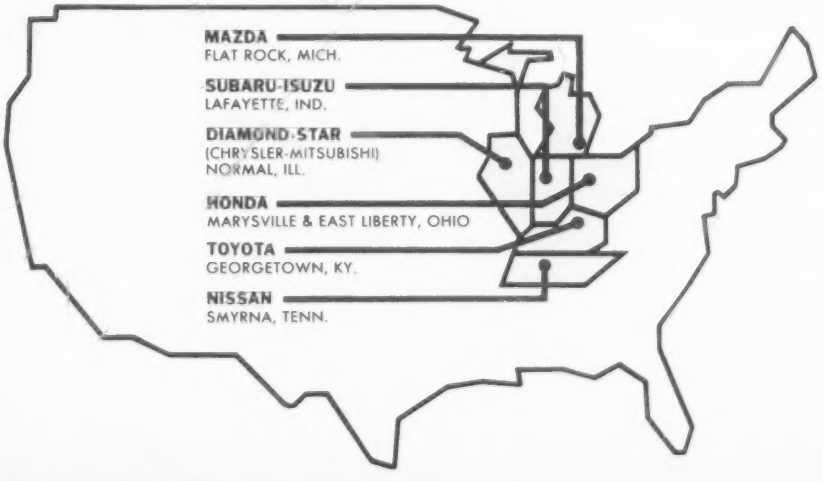
Landing a production job at Toyota takes at least 18 hours. Once prospective employees complete a general knowledge exam and a test of their attitudes toward work, Toyota gives the top 30% the sort of scrutiny that American companies use only for hiring managers. First, the promising candidates go in groups of 12 to an "interpersonal skills assessment center," run by Kentucky State University, for a session of problem solving. The prospects are told, say, that a lawn mower manufacturer has production problems. The winners ask the right questions and work together to find solutions. Candidates also go through a manufacturing exercise, following instructions to assemble an array of plastic pipes and then improving on the method they were taught. That encourages anyone who dislikes the repetition of factory work to drop out. Less than 10% of the applicants survive to the final stages of a probing interview and a physical exam.

The resulting Toyota team members are a spirited elite who comfortably use such terms as *muda*, Japanese for waste, and *kaizen*, continuous improvement. Says Will Allen, 41, a training specialist who joined Toyota after spending ten years as a line supervisor at Volkswagen in New Stanton, Pennsylvania: "The main difference at Toyota is training. You are allowed to err. You don't see fear on people's faces."

Newcomers to manufacturing are equally upbeat. Jeanie Hughes, 35, a hairdresser for nine years, likens getting a job at Toyota to winning a lottery. "The odds were tremendous, but I would have swept floors," she says. Impressed with her eagerness and manual dexterity, Toyota sent Hughes to Japan for four weeks of training, which she says "gave me extra adrenaline to really push myself." Leading a Kentucky team that installs such small parts as outside mirrors and chrome trim, Hughes insists, is not radically different from the beauty shop. "You work fast with your hands, have an eye for quality, and three people can need something at once," she says. There's just one big difference: "I never got up at 4:30 a.m. before, but I love this job." Her hourly pay: $12.39, or 50% more than in the old job.

WHERE JAPAN'S AUTOMAKERS HAVE LANDED

Company	Employment Present	Planned	Production (Vehicles per year) Present	Planned
HONDA	5,500	7,000	360,000	510,000
NISSAN	3,100	N.A.	228,000	400,000
MAZDA	3,500	3,500	240,000	240,000
DIAMOND-STAR	1,275	2,900	Pilot production	240,000
SUBARU-ISUZU	–	3,200	(Under construction)	240,000
TOYOTA	1,700	3,500	100,000	200,000



TOYOTA, OF COURSE, does a lot of cheerleading and morale building among its Kentucky employees. Team leaders, who get the same Japanese training tour as Jeanie Hughes, return as missionaries. Hearing them talk at debriefing sessions, one manager says, is "like going to church." To bolster harmony among American team members as well as with some 250 Japanese trainers in Kentucky, Toyota subsidizes a "personal touch program" of after-hours socializing.

The big test for Toyota's togetherness lies ahead. The Kentucky plant is training a second shift and has gradually stepped up the pace of production, doubling output since October to its targeted 400 cars a day on the first shift. Says Fujio Cho, executive vice president in charge of the plant: "I feel more problems will be likely from now on. We're not just sitting down being all happy about how things are going." Adds Heltman, the human resources manager: "The honeymoon eventually ends."

Maintaining the team spirit is already a struggle at Nissan after 5½ years in Tennessee. An intense organizing drive by the United Auto Workers is under way. Nissan's local executives, all Americans,

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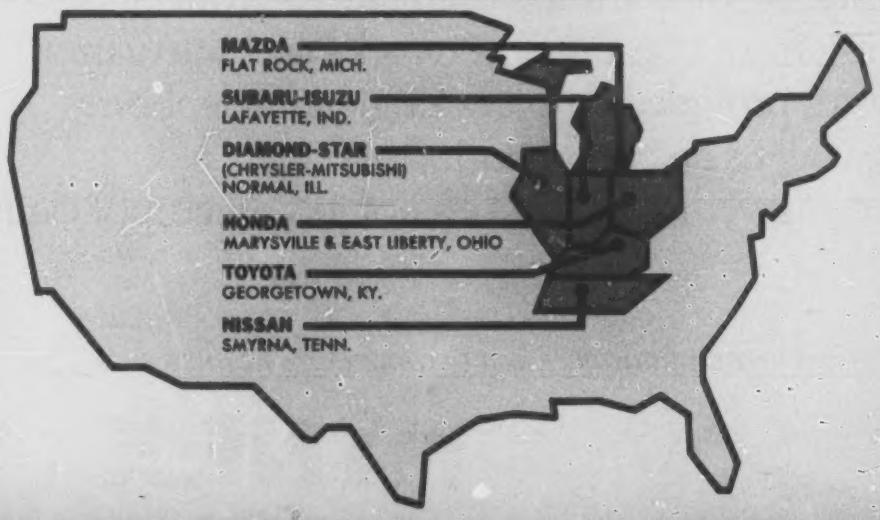

Mayor Richard C. Jones says that initially Mazda left Flat Rock, Michigan, flat.

share the antipathy of many Japanese transplants toward unions. Jerry Benefield, the Ford veteran who is president of the plant, says, "We've demonstrated that management and workers really can work together without fighting each other all the time." Nissan, for instance, boasts of having achieved the best attendance record in the U.S. auto industry without time clocks. It helps that Nissan employees work in teams of about 20, where absentees are easily noticed.

SOME NISSAN line employees complain that the production pace is practically burning them out. In cars per hour, Japanese lines don't necessarily move faster than Detroit's, but workers juggle more tasks, in addition to monitoring quality. "At the rate we work," says one assembler made available by the company for a private interview, "most people here wonder if they can do this job for 20 years." Capitalizing on such discontent, the UAW distributes leaflets and a video program in which individual Nissan employees contend that production speed is contributing to injuries and that favoritism influences promotion. Even Benefield acknowledges that "things aren't perfect." Still, employee turnover is a low 2% a year.

Nissan's experience shows that the Japanese production system is hardly magical and that it requires strenuous effort. Says Harvey Shaiken, a former auto worker who is now professor of work and technology at the University of California in San Diego: "There are two faces to the Japanese system. One is increased efficiency, better quality, and consulting with the workers. But the other is increased pressure, stress, and tightly strung manufacturing." Japanese plants, for instance, purposely do without cadres of relief workers: Team members are expected to take up the slack for employees who are ill.

Nissan's U.S. managers have adjusted some Japanese-style practices to placate American employees. Everyone is issued a uniform, but wearing it is strictly optional. Morning warm-up exercises, which are standard in most transplants, have faded away at Nissan. Says Benefield: "It's not an American tradition to go to work and do exercises, so they just stopped."

The only Japanese transplants that readily accept U.S. unions are those affiliated with American companies. Ford owns 25% of Mazda, which builds the Ford Probe as well as a similar model of its own in Flat Rock, Michigan. Japanese executives run the plant in a partnership of sorts with the UAW. The union has accepted a single job classification for all production employees and participates actively in management. Bill Judson, who serves in the Mazda personnel department with the title "team leader, union relations," is also president of the local UAW unit. If there's a problem in the plant, a team of union and management representatives tries to settle it on the spot. The only other Japanese auto plant with a U.S. affiliate, the new Diamond-Star facility built by Mitsubishi and Chrysler, has already agreed to recognize the UAW.

Honda has demonstrated that, with extraordinary effort by management, the Japanese production system can endure in America. Founded by an engineer, Honda believes the expert on any task is the person who does it every day on the production line. Most of the company's American managers start there, endlessly trained in everything from quality control leadership to dealing with stress. Japanese managers in Ohio effectively spread Honda's culture by example—constantly moving around the plant floor and pitching in to help when needed. In offices, no one drinks coffee while working at a desk because production workers are not allowed to do so on the line.

TO KEEP ENTHUSIASM at a high pitch, the company gives employees a share of its worldwide earnings. Honda also has a unique way of rewarding employees who make the best suggestions and improvements. Every two months, the company's two ranking executives in Ohio, both Japanese, take a 15-hour walking tour of the Marysville auto plant to thank the winners and hear their ideas. That night, the winners are honored with a banquet. The executives spend another two days repeating the ritual in Honda's nearby engine and motorcycle factories. Says Toshikata Amino, executive vice president: "If you really want teamwork and good communications, it's time consuming."

Americans have so thoroughly adopted Honda's egalitarian spirit that they even clash with Japanese associates who dare to pull rank. John L. Michel, 28, a Marysville native who joined Honda six years ago, recalls proposing a standardized form for monitoring quality control—and running into resistance from a Japanese department manager who had just created his own form. The manager asked, "Who are you? What's your title?" Michel replied, "I'm the person who wants to fix this, so my title doesn't matter." Nonplussed, the hierarchical Japanese let out a long sigh.

Michel, now in a department called asso-

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ciate development that trains and encourages workers, seems to personify the Honda spirit. He previously worked in a department that puts every car through quality tests, where he won an award for suggesting that the team rotate jobs every two hours instead of daily. The change not only relieved boredom, but gave everyone a fair share of the easier tasks. When Honda customers complained of dashboard rattles, a group of employees in Michel's department persuaded the company to build a much rougher test track.

Furthest along in "Japanizing" U.S. worker attitudes, Honda also leads in Americanizing the content of its cars. U.S. suppliers are preferred, and Honda helps bring them up to its standards. Says Garry Berryman, a Honda purchasing manager: "The supplier's attitude is more important than anything else." After Inland Steel improved the corrosion resistance of its steel to suit Honda, the company switched to using only American steel in Ohio.

The automaker has also created new U.S. suppliers. About three years ago Honda asked Kevin Kern, who ran a business with his father testing lawn seed near the Japanese auto plant, to take on subassembly work. He set up a little workshop that has grown into Kern & Kern, one of Honda's most efficient suppliers. Its 20 employees mount hi-fi speakers into plastic moldings and deliver them to Honda three times daily.

So far, the experience in the U.S. must be counted a success. The carmakers have kept the kind of efficiency they enjoy at home, and no one appreciates their competitive edge more than the workers of Japan's Auto Alley. Michel of Honda takes colleagues on plant tours of competitors. On the bus back from a Big Three facility, he says, "Some of our associates wondered how they stay in business with guys sitting around on the line watching TV sets. That never happens here." The transplants do have their downside, including the wrenching social changes and all those giveaways by taxpayers. But nobody ever said globalizaton would be easy for America.

HE BEST AND WORST

If memories of the crash drove you into hiding last year, your decision was understandable—but costly. ■ *by Joshua Mendes*

WE HOPE YOU didn't miss out. The Dow Jones industrial average and the broader Standard & Poor's 500-stock index nearly tripled their 1987 performances with total returns of about 17%. That's a handsome gain compared with what you could have got with the best of the "safer" investments: 9% from long-term Treasury bonds. And ah, if you picked the *right* stocks, as shown below in FORTUNE's annual rankings of the year's biggest winners and losers. Compiled jointly by Wright Investors' Service and Wilshire Associates, the lists bring together shares traded on the New York Stock Exchange, the American Stock Exchange, and the over-the-counter market. Rankings are based on total return to investors, expressed as price appreciation plus reinvested dividends. To prevent overrepresentation of the most volatile OTC stocks, the lists include only companies that started the year at $5 or more per share, adjusted for splits. Partnership units and American Depositary Receipts of foreign companies are excluded.

As you might expect, many companies making money on the medical cost explosion did well. Others capitalized on the industrial revival. Surprisingly, even some S&Ls paid off richly. Missing are lots of stocks that soared before other

THE 100 BEST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1987	1988		
1	**Henley Manufacturing** (Hampton, N.H.)	$20.000	$89.375	–	347%
2	**C-COR Electronics** (State College, Pa.)	$5.750	$22.500	–	291%
3	**Jan Bell Marketing** (Fort Lauderdale, Fla.)	$5.669	$20.000	–	253%
4	**Scilib / Life Systems** (Minneapolis)	$8.500	$28.250	–	232%
5	**General Magnaplate** (Linden, N.J.)	$6.875	$21.875	$0.10	221%
6	**Athlone Industries** (Parsippany, N.J.)	$11.500	$32.000	$1.60	206%
7	**Super Rite Foods** (Harrisburg, Pa.)	$7.500	$22.500	$0.23	205%
8	**Berman's** (Detroit)	$8.750	$26.375	$0.06	204%
9	**University Savings Bank** (Seattle)	$8.625	$24.500	$0.40	190%
10	**Salant** (New York City)	$6.750	$19.375	–	187%
11	**Peoples Federal Savings Bank** (Monroe, Mich.)	$8.62	$18.25	$0.25	181%
12	**Baldwin Technology** (Stamford, Conn.)	$5.000	$13.625	$0.13	177%
13	**Lincoln Bancorp** (Encino, Calif.)	$5.712	$15.625	–	174%
14	**International Game Technology** (Reno, Nev.)	$8.375	$22.625	–	170%
15	**Budget Rent a Car** (Chicago)	$11.000	$29.125	–	165%
16	**Salem** (Pittsburgh)	$5.250	$13.875	–	164%
17	**Chicago Pacific** (Chicago)	$20.000	$52.000	$0.25	162%
18	**Ausimont N.V.** (Waltham, Mass.)	$13.250	$34.000	$0.60	161%
19	**Microcom** (Norwood, Mass.)	$11.250	$29.000	–	158%
20	**Thrifty Rent-A-Car System** (Tulsa)	$7.003	$18.000	–	157%
21	**BankAmerica** (San Francisco)	$6.875	$17.625	–	156%
22	**Holly** (Dallas)	$7.687	$19.500	$0.06	155%
23	**Nichols-Homeshield** (Aurora, Ill.)	$6.375	$16.250	–	155%
24	**Occupational-Urgent Care Health** (Sacramento, Calif.)	$5.625	$14.250	–	153%
25	**Union** (South Norwalk, Conn.)	$5.000	$12.625	–	153%

*Includes extraordinary onetime payout of cash, stock, or debt securities.

ILLUSTRATIONS BY TERRY ALLEN

STOCKS OF 1988

companies swallowed them (see next story).

OTC stocks predominated on both lists as usual. First prize went to Henley Manufacturing, a maker of commodity chemicals created as part of the Henley Group, 35 faltering businesses that Allied-Signal spun off in 1986. In turn the group, headed by former Allied executive Michael Dingman, spun off Henley Manufacturing to shareholders in 1987 at $18.25 a share. When the price did not rise much, Dingman began to accumulate shares for himself. In late December he and a partner made a tender offer for the remainder—at $90 a share.

Taking second place was another OTC company, C-COR Electronics, which produces gear for cable television. Cable operators have been on an equipment-buying spree. Other top-ranked OTC winners included catheter maker SciMed Life Systems, which won a favorable ruling in a patent-infringement lawsuit filed by Eli Lilly, and General Magnaplate, which turns out proprietary coatings that protect metals from corrosion.

THE AMERICAN exchange produced this year's bronze medal winner, Jan Bell Marketing, a jewelry distributor helped by the rapid growth of wholesale membership clubs. Other notable Amex winners were Baldwin Technology, the world's leading producer of printing equipment, and Salem Corp., a heavy-machinery outfit that rode the recovery in the metals industries.

The New York exchange's top gainer was also a smokestack success—Athlone Industries, a specialty steelmaker. Another Big Board champ, Salant, proved that you should never count a company out too soon. Since emerging from bankruptcy in 1987, the manufacturer of jeans and other apparel has acquired another clothing company and tripled its sales.

Winners turned to losers too. Informix, a database software company, placed 15th last year on the winner's list, but was the 32nd-biggest loser this year when late product introductions ravaged profits. Also among the fallen stars was Genentech, the biotech whiz, whose sales stumbled. The biggest loser was Coated Sales, once a high-flying maker of specialty fabrics for parachutes and other survival gear. Not even parachutes could break this company's fall when auditors discovered it had overstated its assets by millions of dollars. It has filed for bankruptcy, most of its top executives have resigned, and the Justice Department is investigating. Moral: Yesterday's right stock may be wrong in 1989.

REPORTER ASSOCIATE *Constance A. Gustke*

THE 100 BEST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1987	1988		
26	Cellular Products (Buffalo)	$6.250	$15.750	–	152%
27	Phoenix Medical Technology (Andrews, S.C.)	$6.750	$17.000	–	152%
28	Action Auto Rental (Solon, Ohio)	$6.667	$16.750	–	151%
29	Stewart & Stevenson Services (Houston)	$11.339	$28.250	$0.05	150%
30	Interco (St. Louis)	$32.250	$3.625	$67.01*	149%
31	Alliance Financial (Dearborn, Mich.)	$17.500	$41.500	$1.00	148%
32	Baltek (Northvale, N.J.)	$5.875	$14.375	$0.10	148%
33	Maxxam (Los Angeles)	$9.875	$24.375	–	147%
34	Big Bear (Columbus, Ohio)	$15.442	$38.000	–	146%
35	Associated Communications (Class B) (Pittsburgh)	$14.674	$36.000	–	145%
36	Elmwood Federal Savings Bank (Media, Pa.)	$5.000	$12.125	–	143%
37	Software Publishing (Mountain View, Calif.)	$8.125	$19.625	–	142%
38	MCI Communications (Washington, D.C.)	$9.375	$22.625	–	141%
39	Pennwalt (Philadelphia)	$44.750	$103.125	$2.40	139%
40	Moore/Modern Controls (Brooklyn Center, Minn.)	$5.750	$13.500	$0.15	138%
41	InterTan (Fort Worth)	$14.875	$35.250	–	137%
42	Wedmore (Miami Lakes, Fla.)	$7.583	$17.750	–	137%
43	Artra Group (Northfield, Ill.)	$12.375	$29.250	–	136%
44	Interactive Technologies (St. Paul)	$7.250	$17.125	–	136%
45	R.P. Scherer (Troy, Mich.)	$12.500	$28.750	$0.37	134%
46	Lamson & Sessions (Beachwood, Ohio)	$5.500	$12.875	–	134%
47	Century Telephone Enterprises (Monroe, La.)	$13.840	$31.500	$0.59	134%
48	Centel Cable Television (Oak Brook, Ill.)	$16.750	$39.000	$0.03	133%
49	Sound Warehouse (Dallas)	$9.125	$21.250	–	133%
50	Badger Paper Mills (Peshtigo, Wis.)	$7.875	$17.750	$0.49	133%

NEW YORK STOCK EXCHANGE

AMERICAN STOCK EXCHANGE

OVER THE COUNTER

THE 100 BEST STOCKS

			STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
			1987	1988		
51	Collagen (Palo Alto, Calif.)		$5.750	$13.250	–	130%
52	Valmont Industries (Valley, Neb.)		$10.000	$22.500	$0.31	130%
53	BGS Systems (Waltham, Mass.)		$5.500	$9.750	$2.20*	128%
54	JLG Industries (McConnellsburg, Pa.)		$6.750	$15.250	$0.11	128%
55	Applied Power (Butler, Wis.)		$16.000	$36.250	$0.20	128%
56	Cambridge BioScience (Worcester, Mass.)		$6.250	$14.250	–	128%
57	Haicap Holdings (Vancouver, B.C.)		$11.375	$25.875	–	127%
58	Helen of Troy (El Paso, Texas)		$6.875	$15.625	–	127%
59	Gundle Environmental Systems (Houston)		$12.700	$28.750	–	126%
60	Gutlet Communications (Providence)		$10.500	$23.750	–	126%
61	Vtrco Manufacturing (Los Angeles)		$5.000	$11.250	$0.04	126%
62	Gradco Systems (Irvine, Calif.)		$5.875	$13.250	–	126%
63	Diversified Investment Group (Philadelphia)		$6.500	$14.625	–	125%
64	First Federal S&L (Kalamazoo, Mich.)		$13.000	$28.625	$0.37	124%
65	Kroger (Cincinnati)		$24.750	$55.875	$49.45*	124%
66	CRS Sirrine (Houston)		$12.000	$26.500	$0.24	124%
67	Advanced Marketing Services (San Diego)		$7.500	$16.750	–	123%
68	Whittaker (Los Angeles)		$24.000	$51.750	$1.00	123%
69	Medex (Hilliard, Ohio)		$5.980	$13.125	$0.09	123%
70	Cascade (Portland, Ore.)		$10.250	$22.000	$0.60	123%
71	Rockaway (Parsippany, N.J.)		$7.000	$15.000	$0.35	122%
72	Supreme Companies (Rye, N.Y.)		$5.875	$13.000	–	121%
73	Quanex (Houston)		$6.125	$13.375	$0.08	120%
74	Cantar (Cambridge, Mass.)		$6.834	$15.000	–	119%
75	Telephone & Data Systems (Chicago)		$12.623	$27.375	$0.20	119%
76	Burr-Filmer Medical (Montgomery, Ala.)		$8.500	$18.375	$0.13	119%
77	Barnaby (Norwalk, Conn.)		$11.875	$25.875	$0.05	118%
78	Computer Data Systems (Rockville, Md.)		$8.500	$18.375	$0.12	118%
79	Superior Industries International (Van Nuys, Calif.)		$9.203	$19.750	$0.24	118%
80	C&R Clothiers (Culver City, Calif.)		$11.000	$24.000	–	118%
81	Laclede Steel (St. Louis)		$10.171	$21.750	$0.47	118%
82	Component Technology (Dayton)		$7.000	$15.250	–	118%
83	Puerto Rican Cement (San Juan)		$23.625	$50.250	$0.75	118%
84	Cleveland-Cliffs (Cleveland)		$14.875	$26.625	$4.37*	117%
85	Fidelity Federal S&L (Marion, Ind.)		$7.750	$16.750	–	116%
86	Burritt Interfinancial (New Britain, Conn.)		$8.797	$19.000	–	116%
87	Midsouth (Jackson, Miss.)		$6.327	$13.625	–	115%
88	DOC Optics (Southfield, Mich.)		$5.000	$10.750	–	115%
89	Eaton Financial (Framingham, Mass.)		$6.750	$14.500	–	115%
90	Frozen Food Express (Dallas)		$5.125	$10.750	$0.19	115%
91	McIntyre Mines (Toronto)		$33.000	$58.500	$11.96*	114%
92	Holly Farms (Memphis)		$27.000	$55.625	$1.32	113%
93	McClain Industries (Sterling Heights, Mich.)		$6.562	$14.000	–	113%
94	Gamenics (Minnetonka, Minn.)		$7.500	$16.000	–	113%
95	Fedders (Peapack, N.J.)		$6.125	$12.625	$0.30	113%
96	PacifiCare Health Systems (Cypress, Calif.)		$5.750	$12.250	–	113%
97	Woodstream (Lititz, Pa.)		$8.000	$16.625	$0.28	113%
98	Agouron Pharmaceuticals (La Jolla, Calif.)		$8.000	$17.000	–	113%
99	Nichols Institute (San Juan Capistrano, Calif.)		$5.831	$12.375	–	112%
100	Programming & Systems (New York City)		$8.250	$17.500	–	112%

*Includes extraordinary onetime payout of cash, stock, or debt securities.

NEW YORK STOCK EXCHANGE

AMERICAN STOCK EXCHANGE

OVER THE COUNTER

THE 50 WORST STOCKS

		STOCK PRICE 12/31			
		1987	1988		
1	Coated Sales (Laurence Harbor, N.J.)	$6.750	$0.297	–	−96%
2	First Service Bank for Savings (Leominster, Mass.)	$8.125	$0.688	–	−92%
3	National Business Systems (Mississauga, Ontario)	$10.250	$0.875	–	−91%
4	North American Ventures (East Hartford, Conn.)	$5.125	$0.594	–	−88%
5	Metropolitan Financial S&L (Dallas)	$6.000	$0.750	–	−88%
6	Alliance Bancorporation (Anchorage, Alaska)	$6.750	$0.875	–	−87%
7	Sphinx Mining (Fort Smith, Ark.)	$5.188	$0.719	–	−86%
8	Diversified Foods (Portland, Maine)	$7.500	$1.250	–	−83%
9	Odyssey Entertainment (Los Angeles)	$9.375	$1.625	–	−83%
10	American Car[illegible]s (Overland Park, Kans.)	$5.625	$1.000	–	−82%
11	Tucker Holding (Jacksonville, Fla.)	$6.125	$1.250	–	−80%
12	Transducer Systems (Kulpsville, Pa.)	$5.750	$1.188	–	−79%
13	McCormick Capital (Chicago)	$5.750	$1.250	–	−78%
14	Sonora Gold (Vancouver)	$6.000	$1.438	–	−76%
15	Kappa Networks (Rahway, N.J.)	$6.000	$1.500	–	−75%
16	Western S&L (Phoenix)	$8.687	$2.375	–	-73%
17	Readel Industries (Newport Beach, Calif.)	$5.250	$1.438	–	−73%
18	Damon Creations (New York City)	$5.875	$1.625	–	−72%
19	Telesphere Int'l (Oakbrook Terrace, Ill.)	$5.500	$1.625	–	−70%
20	[illegible]RE (Seattle)	$6.000	$1.813	–	−70%
21	Leadville (Lakewood, Colo.)	$9.500	$2.875	–	−70%
22	Alpha 1 Biomedicals (Washington, D.C.)	$8.500	$2.625	–	−69%
23	Micropolis (Chatsworth, Calif.)	$23.250	$7.375	–	−68%
24	Great A[illegible]erican (Baton Rouge, La.)	$5.000	$1.625	–	−68%
25	Check Technology (St. Paul)	$5.750	$1.875	–	−67%
26	ABQ Bank (Albuquerque, N.M.)	$11.500	$3.750	–	−67%
27	Tiertec International (San Mateo, Calif.)	$11.375	$3.750	–	−67%
28	Wyse Technology (San Jose, Calif.)	$21.875	$7.250	–	−67%
29	Circle Express (Indianapolis)	$5.250	$1.750	–	−67%
30	Datamag (Scottsdale, Ariz.)	$9.000	$3.000	–	−67%
31	ESIC (Hopkinton, Mass.)	$15.750	$5.375	–	−66%
32	Informix (Menlo Park, Calif.)	$24.250	$8.375	–	−65%
33	Continental Information Systems (Syracuse, N.Y.)	$6.125	$2.125	–	−65%
34	Regina (Rahway, N.J.)	$15.000	$5.250	–	−65%
35	Sooner Federal Savings (Tulsa)	$20.000	$7.000	–	−65%
36	EAB Marine (Edison, N.J.)	$6.250	$2.250	–	−64%
37	Elcotel (Sarasota, Fla.)	$7.250	$2.750	–	−62%
38	Genentech (San Francisco)	$42.000	$16.000	–	−62%
39	Hasbrouck (Cleveland)	$12.000	$4.500	$0.25	−62%
40	Computer & Communications Technology (San Diego)	$6.500	$2.500	–	−62%
41	Calcom Technologies (Rockaway, N.J.)	$5.750	$2.250	–	−61%
42	Inspech (Norristown, Pa.)	$13.000	$5.125	–	−61%
43	Hana Biologics (Alameda, Calif.)	$11.000	$4.375	–	−60%
44	Joule (Edison, N.J.)	$6.875	$2.750	–	−60%
45	Flanigan's Enterprises (Fort Lauderdale, Fla.)	$5.125	$2.000	$0.10	−60%
46	Raytech (Trumbull, Conn.)	$7.125	$2.875	$0.05	−59%
47	American Passage Marketing (Seattle)	$7.375	$3.000	–	−59%
48	Dicon Electrics (Irvine, Calif.)	$30.500	$12.500	–	−59%
49	ElectroSound Group (Hauppauge, N.Y.)	$7.125	$3.000	–	−58%
50	Manufactured Homes (Winston-Sale[illegible], N.C.)	$14.750	$6.250	–	−58%

DEALS OF THE YEAR

Quickly shaking off the gloom of the stock market crash, mergers—and fees—blazed new records in 1988. And RJR Nabisco has yet to be wrapped up. ■ *by Ronald Henkoff*

IT WAS A BRAWLING food fight of a year. Wall Street's dealmakers, only briefly unsettled by the October 1987 stock market crash, plunged back into the arena with all the zest and decorum of frat house denizens at dinnertime. By the time the fracas was over, a larderful of household names—including Kraft, Bloomingdale's, *TV Guide*, Firestone, and CBS Records—had changed hands.

After a hesitant start, 1988 was a record breaker. The acquisitions, restructurings, public offerings, and stock buybacks on FORTUNE's annual list of the 50 largest deals add up to $111.8 billion, easily surpassing the previous mark of $94.6 billion set in 1985. As for the dealmakers, public documents and other sources show that they took in at least $687 million in advisory fees—also a record—not counting commissions on related financing. The 1988 tally does not even include the biggest deal in history, the $25 billion leveraged buyout of RJR Nabisco by Kohlberg Kravis Roberts, which won't be completed until early 1989.

Despite all the fuss surrounding Nabisco and other LBOs, most of the major deals of 1988 were old-fashioned mergers and acquisitions, masterminded not by freebooting raiders bent on asset sales but by American and foreign companies eyeing expansion. That's not to say that the transactions were always amicable. "We're seeing the return of the corporate hostile offer," says James Maher, co-head of investment banking at First Boston. The year's No. 1 transaction sprang from Philip Morris's unsolicited bid for Kraft, which the cheesemaker at first rejected but accepted when the price was raised. The $12.9 billion purchase, which came just three years after Philip Morris swallowed General Foods, now stands as the biggest non-oil acquisition ever.

The upsurge of mergers and acquisitions activity took many Wall Street pros by surprise. "Everybody after the crash was pessimistic," says Eric Gleacher, head of M&A at Morgan Stanley. "I don't recall one person saying 1988 would be a boom year." Several developments early in the year wrong-footed the prognosticators. The junk bond market rebounded strongly from a case of paralysis after Black Monday. That, combined with deflated stock prices, lured many corporate buyers from the sidelines.

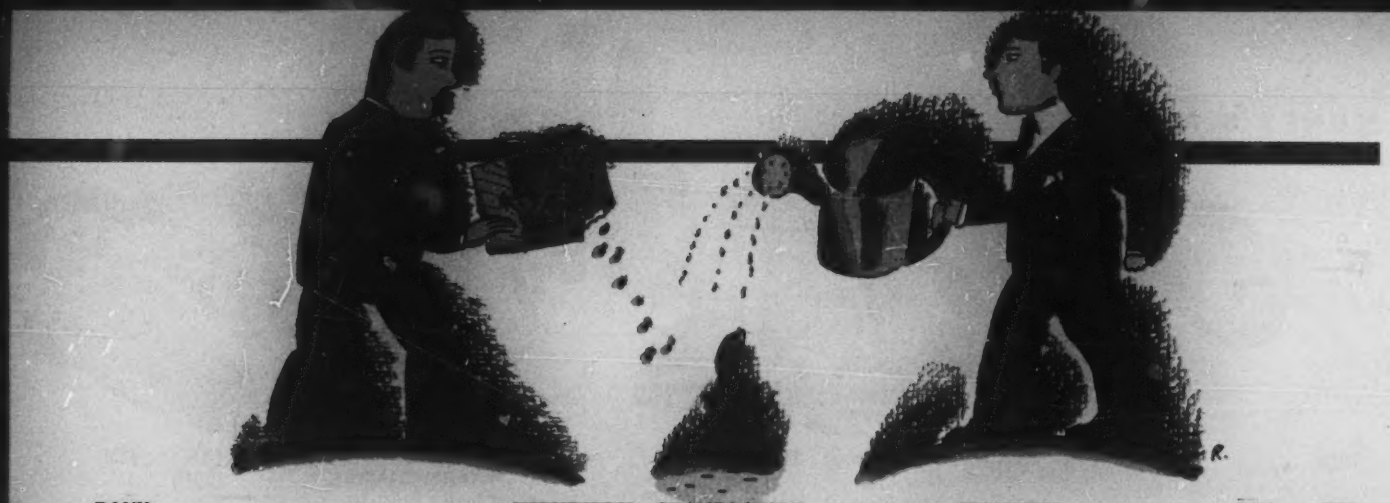
Foreign companies had a special incentive to buy American—a cheaper dollar. The first big gambit of the year was the hostile bid by Hoffmann-La Roche, the Swiss pharmaceutical giant, for Sterling Drug. Hoffmann lost out when Sterling fell into the arms of a white knight, diversifying Eastman Kodak (deal No. 4). Newly aggressive Japanese raiders were more successful. In an unprecedented tricontinental takeover battle, Bridgestone beat out Italy's Pirelli to win control of Firestone Tire & Rubber, chalking up the largest-ever American acquisition by a Japanese company (No. 10). Sony captured a broad swath of American pop culture with its purchase of CBS Records (No. 17). In the year's biggest foreign deal, Canadian developer Robert Campeau acquired Federated Department Stores (No. 2), but sold off large chunks of it to May Department Stores (No. 26) and R.H. Macy (No. 49) to pay down his debt.

The British, meanwhile, had another banner year in the colonies. Tobacco conglomerate BAT Industries acquired Farmers Group, the California insurer, after a prolonged struggle (No. 3). Robert Maxwell, the pugnacious press potentate, finally managed to land an American publisher with his purchase of Macmillan (No. 14). Still pending at year-end was Grand Metropolitan's $5.7 billion takeover of Pillsbury.

Some of the year's biggest would-be takeovers were thwarted, but only after the target companies sandbagged themselves with debt. "We're increasingly seeing the utilization of leverage for defense as well as offense," says Geoffrey Boisi, head of investment banking at Goldman Sachs. Kroger, the supermarket chain, warded off Kohlberg Kravis Roberts and the Haft family by dishing out a special dividend and a debenture to common stockholders (No. 6). Santa Fe Southern Pacific, a railroad and real estate concern, used similar tactics to stop the Henley Group (No. 5).

LEVERAGED buyouts, of course, dominated the news, if not the charts, as the year drew to a close. With the Nabisco deal consigned to next year's list, only one LBO made the top ten in 1988: the comparatively modest, $3.6 billion buyout of papermaker Fort Howard of Green Bay, Wisconsin (No. 7). Altogether, only six of the year's top 50 deals were LBOs, the same number as in 1987. Still, the enormousness of the Nabisco deal guarantees that investors, the press, and politicians will keep a close watch on buyouts this year. "The major question for 1989 is not economic; it's really political," says Gleacher of Morgan Stanley. But barring any precipitate action by Congress, such as limiting the deductibility of interest payments, 1989 looks to be another strong, lucrative—and rowdy—year for dealmakers.

ILLUSTRATIONS BY MARC ROSENTHAL



RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
1	**PHILIP MORRIS** (tobacco, food) acquires **KRAFT** (food)	$12,891,000 609%	Acquisition for cash, December 7	WASSERSTEIN PERELLA (Philip Morris)	$12,000	.09%
				GOLDMAN SACHS LAZARD FRÈRES (Kraft)	$30,000 $3,500	.23% .03%
2	**CAMPEAU** (shopping centers) acquires **FEDERATED DEPARTMENT STORES**	$6,520,000 264%	Acquisition for cash, July 29	FIRST BOSTON WASSERSTEIN PERELLA (Campeau)	$18,900 $10,000	.29% .15%
				GOLDMAN SACHS HELLMAN & FRIEDMAN SHEARSON LEHMAN HUTTON (Federated Department Stores)	$17,875 $16,225 $19,800	.27% .25% .30%
3	**BAT INDUSTRIES** (tobacco, paper) acquires **FARMERS GROUP** (insurance)	$5,148,186 308%	Acquisition for cash, December 16	CONNING & CO. GOLDMAN SACHS SHEARSON LEHMAN HUTTON (BAT Industries)	$4,125 $12,375 $2,000	.08% .24% .04%
				FIRST BOSTON MORGAN STANLEY (Farmers Group)	$10,782 $9,782	.21% .19%
4	**EASTMAN KODAK** (photographic supplies) acquires **STERLING DRUG**	$5,093,072 504%	Acquisition for cash, February 29	SHEARSON LEHMAN HUTTON (Eastman Kodak)	$8,000	.16%
				MORGAN STANLEY (Sterling Drug)	$28,500	.56%
5	**SANTA FE SOUTHERN PACIFIC** (railroad, energy, real estate) pays special dividend	$4,701,000 90%	Dividend of $25 in cash and $5 face amount of a 16% senior subordinated debenture to holders of common stock, as part of a $7.3 billion leveraged recapitalization to fend off a takeover bid by the Henley Group, March 11	GOLDMAN SACHS SALOMON BROTHERS	$12,500 $12,500	.27% .27%
6	**KROGER** (supermarkets, drugstores) pays special dividend	$3,916,269 299%	Dividend of $40 cash and an $8 junior subordinate discount debenture to holders of common stock as part of a $5.3 billion leveraged recapitalization to fend off takeover bids from Kohlberg Kravis Roberts and the Haft family, December 2	GOLDMAN SACHS	$25,000	.64%
7	**F.H. ACQUISITION**[1] acquires **FORT HOWARD** (paper products)	$3,581,000 261%	Leveraged buyout for cash, October 24	MORGAN STANLEY (F.H. Acquisition)	$40,000	1.12%
				FIRST BOSTON (Fort Howard)	$3,600	.10%
8	**NEWS CORP.** (publishing) acquires **TRIANGLE PUBLICATIONS**	$3,000,000 N.A.	Acquisition for cash, November 1	ALLEN & CO. (News Corp.)	N.A.	—
				VERONIS SUHLER (Triangle)	N.A.	—

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
[1] Group led by Morgan Stanley and Fort Howard senior management.

THIS LIST WAS COMPILED BY REPORTER ASSOCIATE KATHLEEN CARROLL SMYTH.

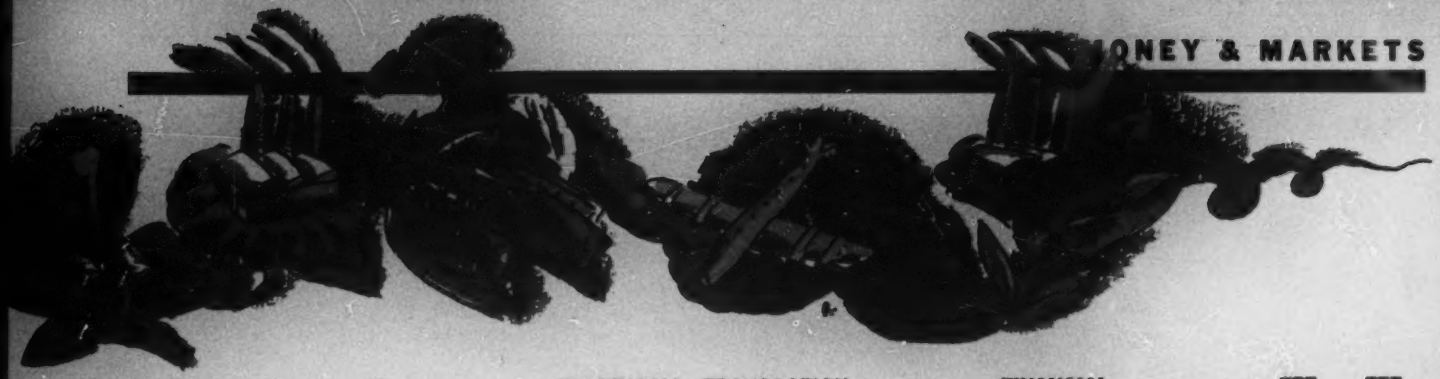
RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
9	UAL[2] (transportation) repurchases common stock	$2,840,000 157%	Cash tender offer for 35.5 million shares (62%) as part of a restructuring plan, March 15	FIRST BOSTON	N.A.	—
10	BRIDGESTONE (tires) acquires FIRESTONE TIRE & RUBBER	$2,621,493 235%	Acquisition for cash, May 5	LAZARD FRÈRES (Bridgestone)	$5,000	.19%
				BLACKSTONE GROUP	$10,400	.40%
				GOLDMAN SACHS (Firestone)	$16,335	.62%
11	CHEVRON (petroleum) acquires Gulf of Mexico oil and gas reserves from TENNECO	$2,600,000 N.A.	Acquisition for cash as part of Tenneco's $7.3 billion auction of oil and gas assets, November 18	MORGAN STANLEY (Tenneco)	N.A.	—
12	AMERICAN STORES (supermarkets, drugstores) acquires LUCKY STORES (supermarkets)	$2,585,632 790%	Acquisition for cash, June 9	SHEARSON LEHMAN HUTTON (American Stores)	$7,000	.27%
				GOLDMAN SACHS	$11,635	.45%
				SALOMON BROTHERS (Lucky Stores)	$10,342	.40%
13	USG (building materials) pays special dividend	$2,574,266 390%	Dividend of $37 in cash, $5 face amount of a 16% junior debenture, and one share of common stock worth $7.50 as part of a $3.1 billion leveraged recapitalization to fend off a takeover bid by Desert Partners, July 13	GOLDMAN SACHS	$6,500	.25%
				SALOMON BROTHERS	$6,500	.25%
14	MAXWELL COMMUNICATION (publishing) acquires MACMILLAN (publishing)	$2,557,775 539%	Acquisition for cash, December 16	ROTHSCHILD INC.	$12,000	.47%
				SAMUEL MONTAGU (Maxwell)	$2,278	.09%
				FIRST BOSTON	$7,000	.27%
				LAZARD FRÈRES	$4,000	.16%
				WASSERSTEIN PERELLA (Macmillan)	$5,000	.20%
15	ASI HOLDING[3] acquires AMERICAN STANDARD (building, transportation products)	$2,459,000 282%	Leveraged buyout for cash, June 29	KELSO & CO.	$25,000	1.02%
				FIRST BOSTON (ASI Holding)	$12,500	.51%
				GOLDMAN SACHS (American Standard)	$12,360	.50%
16	GENERAL ELECTRIC (electronics) acquires chemical business from BORG-WARNER (automotive parts, chemicals)	$2,310,000 N.A.	Acquisition for cash, September 19	KIDDER PEABODY (General Electric)	N.A.	—
				MERRILL LYNCH CAPITAL MARKETS (Borg-Warner)	N.A.	—
17	SONY (electronics) acquires CBS RECORDS from CBS (broadcasting)	$2,000,000 N.A.	Acquisition for cash, January 5	BLACKSTONE GROUP (Sony)	N.A.	—
17	IFS INTERMEDIATE INCOME TRUST† sells common stock	$2,000,000	Initial public offering of 200 million shares, March 10	WHEAT FIRST SECURITIES*	$139,000	6.95%
				KIDDER PEABODY		
				SMITH BARNEY HARRIS UPHAM		

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
† Closed-end investment company.
* Lead manager.

[2] Formerly Allegis Corp.
[3] Group led by Kelso & Co., American Standard senior management, and American Standard employees in employee stock ownership plan.



RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
19	DURACELL HOLDINGS[4] acquires battery business from KRAFT (food)	$1,800,000 N.A.	Leveraged buyout for cash, June 24	KOHLBERG KRAVIS ROBERTS (Duracell Holdings)	$24,000	1.33%
				GOLDMAN SACHS (Kraft)	N.A.	—
20	SHAWMUT and HARTFORD NATIONAL (bank holding companies) merge to form SHAWMUT NATIONAL	$1,792,494 290%	Merger by exchange of common and preferred stock, February 29	SHEARSON LEHMAN HUTTON (Shawmut)	$3,000	.17%
				GOLDMAN SACHS (Hartford National)	$2,750	.15%
21	DUN & BRADSTREET (publishing) acquires IMS INTERNATIONAL (information services)	$1,660,000 686%	Acquisition for common stock, May 26	GOLDMAN SACHS (Dun & Bradstreet)	$6,250	.38%
				SHEARSON LEHMAN HUTTON (IMS International)	$1,000	.06%
22	BNS[5] acquires KOPPERS (construction materials and services)	$1,629,566 301%	Acquisition for cash, November 14	SHEARSON LEHMAN HUTTON FIRST COUNTY NATWEST INTERNATIONAL LTD. (BNS)	$8,610 $4,345	.53% .27%
				DILLON READ FIRST BOSTON (Koppers)	$1,250 $9,000	.08% .55%
23	MONTGOMERY WARD HOLDING[6] acquires MONTGOMERY WARD (retail stores) from MOBIL (petroleum)	$1,587,000 102%	Leveraged buyout for cash, June 23	KIDDER PEABODY (Montgomery Ward Holding)	N.A.	—
				SALOMON BROTHERS (Mobil)	N.A.	—
24	TATE & LYLE (sugar, food) acquires STALEY CONTINENTAL (corn products, food services)	$1,572,184 218%	Acquisition for cash, June 6	MORGAN STANLEY (Tate & Lyle)	$4,720	.30%
				FIRST BOSTON MERRILL LYNCH CAPITAL MARKETS (Staley Continental)	$7,464 $6,138	.47% .39%
25	TELE-COMMUNICATIONS and COMCAST (joint venture) acquire SCI HOLDINGS (cable TV properties) from KOHLBERG KRAVIS ROBERTS	$1,550,000 N.A.	Acquisition for cash, November 2	FIRST BOSTON LAZARD FRÈRES (Tele-Communications & Comcast)	N.A. N.A.	— —
				KOHLBERG KRAVIS ROBERTS DREXEL BURNHAM LAMBERT MORGAN STANLEY SHEARSON LEHMAN HUTTON (SCI Holdings)	$15,000 $10,000 $10,000 N.A.	.97% .65% .65% —
26	MAY DEPARTMENT STORES acquires FEDERATED DEPARTMENT STORES' FILENE'S and FOLEY'S from CAMPEAU (shopping centers)	$1,507,000 N.A.	Acquisition for cash and notes, May 3	MORGAN STANLEY (May Department Stores)	N.A.	—
				FIRST BOSTON (Campeau)	N.A.	—
27	COMMERCIAL CREDIT (financial services) acquires and takes name of PRIMERICA (financial services)	$1,486,064 102%	Acquisition for cash and stock, December 15	FIRST BOSTON MORGAN STANLEY (Commercial Credit)	$1,125 $5,000	.08% .34%
				LAZARD FRÈRES (Primerica)	$10,000	.67%

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
† Closed-end investment company.

[4] Group led by Kohlberg Kravis Roberts.
[5] Group formed by Beazer PLC and Shearson Lehman Hutton.
[6] Group led by Montgomery Ward senior management and Kidder Peabody.

RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
28	PUTNAM PREMIER INCOME TRUST† sells common stock	$1,400,000	Initial public offering of 140 million shares, February 18	SHEARSON LEHMAN HUTTON*	$98,000	7.00%
				WHEAT FIRST SECURITIES		
29	CSX (transportation, energy) repurchases common stock	$1,380,157 101%	Cash tender offer for 43.1 million shares (28%) as part of a restructuring plan, October 18	WASSERSTEIN PERELLA	$2,135	.15%
30	OCCIDENTAL PETROLEUM sells common stock	$1,371,375	Public offering of 51.8 million shares, June 7	DREXEL BURNHAM LAMBERT*	$51,750	3.77%
				DONALDSON LUFKIN & JENRETTE		
				FIRST BOSTON		
				KIDDER PEABODY		
				MERRILL LYNCH CAPITAL MARKETS		
				MORGAN STANLEY		
				PAINE WEBBER		
				SALOMON BROTHERS		
				SHEARSON LEHMAN HUTTON		
				DEAN WITTER CAPITAL MARKETS		
31	ROBERT BASS GROUP and AOKI CORP. acquire WESTIN HOTELS & RESORTS from UAL[7] (transportation)	$1,350,000 N.A.	Acquisition for cash, January 31	FIRST BOSTON (UAL)	N.A.	—
				INDUSTRIAL BANK OF JAPAN (Bass Group and Aoki)	N.A.	—
32	BANK OF NEW YORK acquires IRVING BANK	$1,346,739 116%	Acquisition for cash, stock and warrants, December 30	MORGAN STANLEY (Bank of New York)	$5,500	.41%
				GOLDMAN SACHS	$7,000	.52%
				J.P. MORGAN (Irving Bank)	N.A.	—
33	PECHINEY (metals) acquires 98.6% of TRIANGLE INDUSTRIES (packaging)	$1,250,795 376%	Cash tender offer, December 21	WASSERSTEIN PERELLA (Pechiney)	$10,000	.80%
				MERRILL LYNCH CAPITAL MARKETS	$900	.07%
				L.F. ROTHSCHILD (Triangle Industries)	$250	.02%
34	OCCIDENTAL PETROLEUM acquires CAIN CHEMICAL	$1,248,562 682%	Acquisition for cash, May 3	DREXEL BURNHAM LAMBERT (Occidental Petroleum)	N.A.	—
				LAZARD FRÈRES (Cain Chemical)	N.A.	—
35	RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTSWERK AG (electric utility) acquires DEUTSCHE TEXACO AG from TEXACO (petroleum)	$1,230,000 N.A.	Acquisition for cash, June 29	DILLON READ (Deutsche Texaco AG)	N.A.	—
36	MAGNOLIA PARTNERS[8] acquires J.P. STEVENS (textiles, home furnishings)	$1,216,348 248%	Acquisition for cash, May 5	MERRILL LYNCH CAPITAL MARKETS (Magnolia Partners)	$4,500	.37%
				GOLDMAN SACHS	$8,676	.71%
				KIDDER PEABODY (J.P. Stevens)	$350	.03%
37	SSC HOLDINGS[9] acquires STOP & SHOP (supermarkets, general merchandise)	$1,213,180 268%	Leveraged buyout for cash, June 22	KOHLBERG KRAVIS ROBERTS	$28,000	2.31%
				MORGAN STANLEY (SSC Holdings)	$4,000	.33%
				SHEARSON LEHMAN HUTTON (Stop & Shop)	$10,500	.87%

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
† Closed-end investment company.
* Lead manager.
7 Formerly Allegis Corp.
8 Group formed by West Point-Pepperell and NTC Group.
9 Group led by Kohlberg Kravis Roberts.

RANK		VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
38	SEAGRAM CO. (distilled beverages) acquires TROPICANA PRODUCTS (beverages) from BEATRICE	$1,200,000 N.A.	Acquisition for cash, April 8	SALOMON BROTHERS (Seagram Co.)	N.A.	—
				WASSERSTEIN PERELLA (Beatrice)	N.A.	—
38	PA HOLDINGS* acquires PNEUMO ABEX (aerospace, defense) from IC INDUSTRIES (consumer products)	$1,200,000 N.A.	Leveraged buyout for cash, August 29	WASSERSTEIN PERELLA (PA Holdings)	N.A.	—
				FIRST BOSTON (IC Industries)	N.A.	—
40	ITEL (transportation and distribution) acquires SIGNAL CAPITAL HOLDINGS, EQUILEASE, 17% of SANTA FE SOUTHERN PACIFIC, and 10% of AMERICAN PRESIDENT COS. from HENLEY GROUP (multi-industry)	$1,193,988 N.A.	Acquisition for cash and common stock, September 23	MERRILL LYNCH CAPITAL MARKETS (Itel)	N.A.	—
				LAZARD FRÈRES SC PARTNERS (Henley Group)	N.A. $2,000	— .17%
41	RIKLIS FAMILY CORP. (holding company) acquires nine units of E-II HOLDINGS (consumer products) from AMERICAN BRANDS (tobacco, distilled beverages)	$1,192,000 N.A.	Acquisition for cash and preferred stock, July 5	MORGAN STANLEY (American Brands)	N.A.	—
42	FINANCIÈRE CRÉDIT SUISSE—FIRST BOSTON and FIRST BOSTON merge to form CS FIRST BOSTON	$1,186,000 101%	Merger and buyout of both companies' shares for cash, December 22	DILLON READ (First Boston)	$2,150	.18%
43	AMERICAN BRANDS (tobacco, distilled beverages) acquires E-II HOLDINGS (consumer products)	$1,128,600 286%	Acquisition for cash, February 29	MORGAN STANLEY (American Brands)	$8,000	.71%
				DREXEL BURNHAM LAMBERT MERRILL LYNCH CAPITAL MARKETS SHEARSON LEHMAN HUTTON (E-II Holdings)	$3,580 $5,030 $5,030	.32% .45% .45%
44	RJR NABISCO (cigarettes, food) repurchases common stock	$1,123,500 215%	Cash tender offer for 21 million shares (8.5%), April 26	LAZARD FRÈRES	$2,500	.22%
45	EASTMAN KODAK (photographic supplies) sells notes	$1,100,000	Offering of $1,100,000 of 9.125% notes due 1998, March 1	MORGAN STANLEY MERRILL LYNCH CAPITAL MARKETS SALOMON BROTHERS	$7,150	.65%
45	TEMPLETON GLOBAL INCOME FUND† sells common stock	$1,100,000	Initial public offering of 110 million shares, March 17	MERRILL LYNCH CAPITAL MARKETS	$71,500	6.5%
45	COMSTOCK PARTNERS STRATEGY FUND† sells common stock	$1,100,000	Initial public offering of 110 million shares, May 19	MERRILL LYNCH CAPITAL MARKETS	$71,500	6.5%
48	FIRST FIDELITY BANCORP. and FIDELCOR merge to form a new FIRST FIDELITY BANCORP.	$1,099,987 152%	Merger by exchange of common and preferred stock, February 29	RYAN BECK (First Fidelity Bancorp.)	$3,300	.30%
				GOLDMAN SACHS (Fidelcor)	$3,300	.30%
49	R.H. MACY (department stores) acquires FEDERATED DEPARTMENT STORES' BULLOCK'S/BULLOCK'S WILSHIRE and I. MAGNIN from CAMPEAU (shopping centers)	$1,099,000 N.A.	Acquisition for cash and notes, May 3	DREXEL BURNHAM LAMBERT KIDDER PEABODY (R.H. Macy)	N.A. N.A.	— —
				FIRST BOSTON (Campeau)	N.A.	—
50	FLEET FINANCIAL and NORSTAR BANCORP merge to form FLEET/NORSTAR FINANCIAL GROUP	$1,087,470 124%	Merger by exchange of common and preferred stock, January 4	SALOMON BROTHERS (Fleet Financial)	$2,500	.23%
				SALOMON BROTHERS (Norstar Bancorp)	$2,500	.23%

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
† Closed-end investment company.
* Group formed by Wasserstein Perella and Henley Group.

EXPLANATORY NOTES

Deals eligible for the list include:

1. U.S. public offerings of securities (except short-term securities) by domestic and foreign corporations, issued under a single prospectus or offering circular.
2. Cash tender offers by domestic corporations or by foreign corporations tendering in the U.S., including those of companies buying in their own securities.
3. Mergers or acquisitions in which the buyer or seller is a U.S. company or part of one. To be eligible, offerings must be effective in 1988 and tender offers must have expired during the year. Mergers and acquisitions are eligible if legally closed during the year or, when not legally closed, if the prospective buyer has paid a portion of the purchase price in cash during the year.

The list excludes short-term financings, government securities, routine debt offerings by financial companies, repackagings of mortgage and other debt, and financings other than public offerings—such as bank borrowings and private placements.

VALUE OF DEAL

Debt assumed in an acquisition is not included in the price. Amounts for cash offerings are the total amounts raised; for tenders the total amount paid. All securities issued in acquisitions or mergers are valued at the market price on the date of closing. When two companies merge through an exchange of stock to form a new company, the company whose stockholders received the larger share of the new company is treated as the buyer, and only those shares issued to stockholders of the small company are valued.

PERCENT OF BOOK VALUE

Book value calculations indicate the price paid (or amount of equity capital raised) per share as a percentage of the shareholders' equity per share of the acquired company or issuer at the end of the last quarter preceding the transaction.

TRANSACTION

Dates under this heading are effective dates for offerings, expiration dates for tenders, and closing dates for acquisitions and mergers.

FINANCIAL INTERMEDIARIES

For underwritten public offerings, the co-managers are listed and the lead manager is indicated by an asterisk. In the case of acquisitions and mergers, the intermediaries are typically investment banking firms that assisted in the transaction.

FEE

The figures represent the amounts charged by the financial intermediaries assisting in the deals. In underwritings, part of the fee is paid to other members of the underwriting syndicate or to dealers other than the co-managers. In mergers and acquisitions, fees paid for financing services are excluded, when possible. ◻

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Zig Ziglar

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7.5% and 22.4% are the 1-year and average annual 35-month total returns respectively for the periods ended 9/30/88. Total return represents past performance. Return and share price will vary, and shares may be worth more or less at redemption than at original purchase. *Cumulative total return since inception 10/31/85 to 9/30/88. Figures include changes in principal value, reinvested dividends and capital gain distributions. T. Rowe Price Investment Services, Inc., Distributor.